1985

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 1986 — Commission file number 0-7423

RAPID-AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	15-0587446 (I.R.S. Employer Identification No.)
888 Seventh Avenue, New York, New York (Address of principal executive offices)	10106 (Zip Code)

Registrant's telephone number, including area code: 212-621-4500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
6% Sinking Fund Subordinated Debentures, due August 15, 1988	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc. Cincinnati Stock Exchange, Inc.
7% Subordinated Debentures (1969 Issue), due May 15, 1994	
7% Subordinated Debentures (1972 Issue), due May 15, 1994	
12% Sinking Fund Subordinated Debentures, due January 15, 1999	
10-3/4% Sinking Fund Subordinated Debentures, due December 1, 2003	
10-3/4% Sinking Fund Subordinated Debentures, due October 1, 2004	
11% Sinking Fund Subordinated Debentures, due October 1, 2005	
10% Sinking Fund Subordinated Debentures, due August 1, 2006	Pacific Stock Exchange, Inc. Cincinnati Stock Exchange, Inc.
15% Sinking Fund Subordinated Debentures, due November 15, 2008	
11-3/4% Sinking Fund Subordinated Debentures, due August 15, 2009	
Redeemable Debenture Purchase Warrants, expiring May 15, 1994	
14-1/2% Senior Subordinated Notes, due March 1, 1994	Pacific Stock Exchange, Inc.
Serial Zero Coupon Senior Subordinated Debentures, due March 1, 1987 through March 1, 2007	

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

State the aggregate market value of the voting stock held by non-affiliates of the registrant.

None held by non-affiliates.

Indicate the number of shares outstanding of each of registrant's classes of common stock, as of the latest practical date.

Class	Outstanding at April 18, 1986
Common Stock, par value $.01 per share	1,461,364 shares

Documents incorporated by reference.

None

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Introductory Note

Rapid-American Corporation ("Rapid"), a Delaware corporation formerly named Kenton Corporation, is the successor to the former Rapid-American Corporation, a Delaware corporation, which was merged (the "Merger") into Kenton Corporation on January 31, 1981. As a result of the Merger, Rapid became a privately-held corporation owned 60% by Rapid-American Holding Corporation ("Holding") (formerly Riklis Family Corporation), and 40% by American Financial Corporation, a Delaware corporation ("AFC"). During December 1984, Holding acquired all of the common stock of Rapid owned by AFC. See Note 9 to Financial Statements.

In excess of 99% of the voting power of Holding is held by World Wide Distributors, Inc., a Delaware corporation ("World Wide"), which is a wholly-owned subsidiary of KGA Industries, Inc., a Delaware corporation ("KGA"). Meshulam Riklis, Chairman of the Board, President, and Chief Executive Officer of Rapid, owns 100% of the outstanding capital stock of KGA.

PART I

Item 1. Business.

General

Rapid is engaged (a) through its subsidiary, McCrory Corporation (which, together with its subsidiaries and division, is sometimes referred to herein as "McCrory"), in retail merchandising, (b) through its subsidiary, Schenley Industries, Inc. (which, together with its subsidiaries, is sometimes referred to herein as "Schenley"), in the production, importation, and sale of alcoholic beverages under various brand names, and (c) through its subsidiary, McGregor Corporation (which, together with its subsidiaries and divisions, is sometimes referred to herein as "McGregor"), in the manufacture, distribution, and sale of a variety of consumer products and the licensing of several trademarks.

During January 1986, McCrory purchased all of the outstanding shares of capital stock of T. G. & Y. Stores Co. ("T. G. & Y. Stores") for approximately $360,000,000 in cash, subject to adjustment. See "Retail Merchandising - T. G. & Y. Stores" and Note 2 to Financial Statements.

During April 1985, McCrory sold all of the capital stock of its subsidiary, Lerner Stores Corporation ("Lerner"), to The Limited, Inc. for approximately $297,000,000 in cash. See Item 3 - "Legal Proceedings - Litigation Regarding the Sale of Lerner" and Note 3 to Financial Statements. At the time of the sale, Lerner operated approximately 800 apparel specialty stores specializing in the sale of women's and children's apparel under the trade names "Lerner Shops," "Lerner," and "Jenny Lane."

During October 1984, McCrory sold all of the capital stock of its wholly-owned subsidiary Otasco, Inc. ("Otasco") to an investor group principally comprised of employees, including members of senior management, of Otasco. The price was the approximate book value as of January 31, 1984, which was paid primarily by the delivery of a $21,000,000 note bearing interest at 15-3/4% per annum, of which $6,000,000 is due no later than October 1989, and $15,000,000 is due in 1994. The note is secured by a pledge of all of the capital stock of Otasco. In addition, McCrory will receive four payments of $3,000,000 each, on the seventh, eighth, ninth and tenth anniversaries of the closing, for a covenant not to compete. See Note 3 to Financial Statements. At the time of the sale, Otasco sold automotive and home accessories in approximately 290 company-owned stores in the southeast and southwest United States, and, in addition, supplied merchandise and merchandising aids to approximately 310 associate stores which were owned by third parties in the same geographical areas.

During March 1984, a joint venture (the "Joint Venture") in which McCrory had a 50% interest acquired 55% of the common stock of HRT Industries, Inc. ("HRT") for $18,000,000 in cash. In January 1985, McCrory purchased the remaining 50% interest in the Joint Venture for $13,225,000 in cash. During April 1985, McCrory acquired the minority interest in HRT for an aggregate of approximately $23,000,000 principal amount of McCrory's 14-1/2% subordinated notes due 1988. During February 1986, HRT decided to discontinue its retailing operations and by April 30, 1986, substantially all of its stores were closed. See "Retail Merchandising - HRT," Item 3 - "Legal Proceedings - Litigation Regarding HRT Going Private" and Note 3 to Financial Statements.

During December 1983 through March 1984, McGregor acquired approximately 61% of the common stock of Faberge, Incorporated ("Faberge") for approximately $100,000,000 in cash. In August 1984, McGregor acquired the minority interest in Faberge for an aggregate of approximately $70,000,000 principal amount of McGregor's 15-1/2% sinking fund subordinated notes due 1994. See "Consumer Products," Item 3 - "Legal Proceedings - Litigation Regarding the Acquisition of Faberge" and Note 4 to Financial Statements.

Effective October 27, 1983, McGregor, which until then had been a wholly-owned subsidiary of Rapid, publicly sold 2,250,000 shares of its common stock and received approximately $37,000,000 in net proceeds. After such sale, Rapid owned approximately 53.8% of McGregor's common stock. In January 1985, Rapid purchased 80,000 shares of McGregor's common stock in the open market for approximately $1,800,000 which increased its ownership to approximately 55.5%. In March 1985, Rapid acquired the minority interest in McGregor for approximately $50,000,000 in cash. See "Consumer Products," Item 3 - "Legal Proceedings - Litigation Regarding McGregor Going Private" and Note 4 to Financial Statements.

At January 31, 1986, Rapid and its subsidiaries employed approximately 56,500 persons.

Financing Arrangements

Working capital requirements have been satisfied primarily from operations, sale of assets and borrowings. Reference is made to Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 8 and 14 to Financial Statements for a description of the financing arrangements of Rapid and its subsidiaries.

Segment Information

The following table sets forth the identifiable assets of each major business segment of Rapid at January 31, 1986, 1985, and 1984:

IDENTIFIABLE ASSETS	January 31, 1986	January 31, 1985	January 31, 1984
	(In Millions)		
Retail Merchandising:			
McCrory Stores	$ 356.9	$ 340.3	$ 248.3
T. G. & Y. Stores	778.8	-	-
Gault	6.7	6.7	6.6
Alcoholic Beverages - Schenley	430.4	560.2	527.9
Consumer Products:			
McGregor	114.3	114.8	97.0
Faberge	228.1	215.6	13.7
Others	24.2	23.5	5.9
Investments in Nonconsolidated Subsidiaries	6.0	8.6	28.6
Marketable Securities and Other Investments	62.1	286.8	49.9
Assets Held for Disposal or Sale - Net	39.6	357.9	449.6
Other Corporate Assets	215.2	207.9	125.1
Total	$2,262.3	$2,122.3	$1,552.6

Net sales of foreign operations, export sales, and sales to any individual customer each represented less than 10% of consolidated net sales. Assets of foreign operations represent less than 10% of consolidated assets.

The contribution of each of the major business segments to consolidated net sales and operating profit from continuing operations during the years ended January 31, 1986, 1985, and 1984 was as follows:

	Year Ended January 31,		
	1986(a)	1985	1984
Net Sales		(In Millions)	
Retail Merchandising:			
McCrory Stores	$ 984	$ 918	$ 818
Gault	9	9	8
Alcoholic Beverages - Schenley	401	416	438
Consumer Products:			
McGregor	190	176	166
Faberge	269	232	-
Others	45	-	12
	$1,898	$1,751	$1,442
Operating Profit			
Retail Merchandising:			
McCrory Stores	$ 71.3	$ 84.5	$ 75.5 (b)
Gault	.6	.6	.5
Alcoholic Beverages - Schenley	60.5 (c)(i)	48.0 (c)	46.6 (c)
Consumer Products:			
McGregor	18.3	21.4	21.3
Faberge	40.1 (h)	19.3	-
Others	5.1	-	8.2 (d)
	195.9	173.8	152.1
Unallocated Costs:			
Interest and debt expense	163.9 (c)	180.5 (c)	117.0 (c)
General corporate expenses	56.0	40.1	40.8 (b)
Other (income) earned at the corporate level	(89.6)(e)	(40.7)(f)	(23.8)(g)
Equity in (income) loss of nonconsolidated subsidiaries, etc.	(.5)	(.3)	(1.2)
Minority interest	.6	3.6	1.2
	130.4	183.2	134.0
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes and Extraordinary Items	$ 65.5	$ (9.4)	$ 18.1

(a) Excludes T. G. & Y. Stores, which was acquired during January 1986.
(b) Additional bonuses of $6.7 million earned by the operating personnel of McCrory Stores were charged to general corporate expenses.
(c) Excludes $16.7, $16.5 and $16.3 million of intercompany interest income in the years ended January 31, 1986, 1985 and 1984, respectively, offset against interest expense of Rapid in consolidation.
(d) Includes pre-tax gain of $6.8 million from the sale of a race track.
(e) Includes a net pre-tax gain of $19.1 million from the sales of marketable securities and $49.1 million of interest and dividends from marketable securities.
(f) Includes a pre-tax gain of $4.7 million from the sales of aircraft and $15.1 million of interest and dividends from marketable securities.
(g) Includes a non-taxable gain of $7.9 million attributable to the public sale by McGregor of 2,250,000 shares of its common stock.
(h) Includes a $9.1 million gain on the termination of pension plans.
(i) Includes $4.1 million from the sales of marketable securities and $10.3 million of interest and dividends from marketable securities.

Retail Merchandising

At January 31, 1986, McCrory (i) through its McCrory Stores division and its subsidiary, J. J. Newberry Co. (collectively "McCrory Stores"), operated 720 variety stores under various trade names, including "McCrory," "McLellan," "H.L. Green," "J. J. Newberry," and "S.H. Kress," (ii) through its subsidiary, T. G. & Y. Stores, acquired in January 1986, operated 230 variety stores, 470 discount stores and 18 clearance centers under the trade names "T. G. & Y." and "Dollar T," and (iii) through its subsidiary, HRT, operated 32 self-service discount department stores under the trade name "Zodys." A subsidiary of HRT, Jody-Tootique, Inc. ("Jody"), was engaged in the manufacture of moderate-priced women's dresses. During February 1986, HRT decided to discontinue its retailing operations and by April 30, 1986 substantially all of its stores were closed. Gault Brothers ("Gault"), McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments.

At January 31, 1986, McCrory and its subsidiaries employed approximately 48,500 persons.

McCrory Stores

McCrory Stores sells a broad mix of consumer merchandise. Restaurants or luncheonettes are operated in 324 stores. McCrory Stores also operates six free-standing restaurants, including three Roy Rogers franchised fast food restaurants.

For each of the three years ended January 31, 1986, the categories set forth below accounted for approximately the following percentages of total store sales of McCrory Stores:

	Year Ended January 31,		
	1986	1985	1984
Apparel and accessories	28.1%	28.8%	28.9%
Hardware and home furnishings	18.3	16.5	15.8
Toiletries and beauty aids	9.7	9.2	9.0
Stationery	8.0	8.1	8.4
Toys, games, and books	7.0	6.9	6.4
Candy	6.6	6.1	6.1
Dry goods and domestics	6.0	7.4	7.0
Restaurants and luncheonettes	5.0	5.4	6.4
Concessions	3.2	3.8	4.3
All other merchandise	8.1	7.8	7.7

McCrory Stores operates in 38 states and the District of Columbia, with the largest concentration of stores in Pennsylvania, Florida, California, and New York. Most of the stores are located in cities and towns having a population of less than 50,000, although the population of the geographical trading area served is generally larger; 426 stores are located in downtown or urban markets; 225 are located in suburban and mall shopping centers; and 69 are located in rural areas.

The following table sets forth, for each of the three years ended January 31, 1986, the number of stores opened, closed, and in operation at the end of each year and the approximate average net sales per store:

Year ended January 31,	Stores opened	Stores closed	Stores in operation at year-end	Approximate average net sales per store (1)
1984	19 (2)	21	716	$1,065,000
1985	37 (3)	30	723	1,206,000
1986	29	32	720	1,295,000

(1) Excluding stores opened or closed during the year.
(2) Includes 12 Rasco stores acquired in October 1983.
(3) Includes 16 Neisner stores, five L. H. Martin stores and nine Royal stores acquired in 1984.

The management of McCrory Stores has a policy of eliminating unprofitable stores based upon lease expirations, locations, and other relevant factors. It is anticipated that during the year ending January 31, 1987, 15 to 20 stores will be closed and approximately 25 stores will be opened. In addition, McCrory Stores is continually engaged in a program of refurbishing its stores.

The minimum sales area of any store is approximately 1,700 square feet, the maximum sales area is approximately 53,000 square feet, and the average sales area is approximately 12,000 square feet; 304 stores have sales areas of under 10,000 square feet, 387 have sales areas from 10,000 to 24,999 square feet, 25 have sales areas from 25,000 to 40,000 square feet, and four have sales areas in excess of 40,000 square feet.

McCrory Stores consists of four operating regions with divisional support functions. Buying is divided into the broad categories of apparel and variety. Distribution warehouses are located in York, Pennsylvania and Clinton, South Carolina, with the buying center located in York, Pennsylvania. In addition, relay stations are maintained at Albany, New York; Los Angeles, California; Stockertown, Pennsylvania; and Columbus, Ohio, to service the stores in their geographical area. A buying office for the west coast stores is located in Los Angeles, California.

McCrory Stores does not enter into long-term purchase contracts, nor does it manufacture any of the products it sells. A limited use is made of private brand names. No supplier accounts for more than 5% of McCrory Stores' purchases.

In common with many other retail businesses, McCrory Stores' business is seasonal, with sales and earnings concentrated in the fourth fiscal quarter ending on January 31.

Competition

The business of McCrory Stores is subject to active competition. The principal methods of competition are location, selection, price, quality, service, and, to a lesser extent, style. Identical or similar merchandise to that sold is generally available at approximately the same cost to competitors handling comparable volume. McCrory Stores generally competes with other merchandising outlets selling comparable merchandise in the same geographical area, including chain, drug, and other stores which offer a broad product mix, supermarkets, discount stores, hardware stores, and numerous other independent local stores. While management of McCrory Stores believes that its stores are generally competitive with other stores in the areas in which they operate, increased competition has been experienced in recent years, particularly from certain nationwide mass merchandising chains.

Labor Relations

At January 31, 1986, McCrory Stores had approximately 18,000 employees, including part-time employees. During certain seasons as many as 3,000 temporary employees are added and peak employment is reached during the Christmas season. There has been no major interruption or curtailment of operations due to labor controversies in over 10 years.

McCrory Stores had a noncontributory pension plan covering eligible employees which was terminated during October 1985. See Note 12 to Financial Statements.

Property

McCrory Stores' policy is to lease rather than own store premises whenever practicable. Most of the leases do not contain clauses authorizing cancellation by the lessee. At January 31, 1986, with the exception of two distribution warehouses (located in York, Pennsylvania and Clinton, South Carolina, containing an aggregate of approximately 1,560,000 square feet) and one store location which are owned, all premises were leased. A number of leases contain provisions for fixed minimum rentals with additional payments based on percentages of annual sales. Some leases require the lessee to pay property taxes or insurance.

T. G. & Y. Stores

At January 31, 1986, T. G. & Y. Stores operated 230 variety stores, 470 discount stores and 18 clearance centers. T. G. & Y. Stores sells a broad mix of consumer merchandise. Pharmacies were operated in 22 stores and automotive service centers were operated in 24 stores. These pharmacies and automotive service centers are in the process of being phased out.

T. G. & Y. Stores operates in 26 states, with the largest concentration of stores in Florida, Texas, Oklahoma, Louisiana and California. The majority

of the stores are located in strip shopping centers in suburban or smaller metropolitan markets.

The minimum sales area of any store is approximately 4,200 square feet, the maximum sales area is approximately 145,000 square feet and the average sales area is approximately 28,100 square feet; 91 stores have sales areas under 10,000 square feet, 206 stores have sales areas from 10,000 to 24,999 square feet, 255 stores have sales areas from 25,000 to 40,000 square feet and 166 stores have sales areas in excess of 40,000 square feet. Six stores are owned, and the balance leased. The stores are serviced by 11 warehouses or distribution centers (two owned and nine leased), containing an aggregate of approximately 3,000,000 square feet, located within the geographic trading area of the stores.

At January 31, 1986, T. G. & Y. Stores had approximately 27,000 employees, including part-time employees.

In March 1986, McCrory announced that it planned to convert the merchandise assortment, layout and presentation in approximately 500 of the T. G. & Y. Stores to be comparable to McCrory Stores and that the approximately 200 remaining T. G. & Y. Stores would be closed.

Canadian Operation

Gault, McCrory's Canadian operation, is principally a distributor of general merchandise to retail establishments. Gault leases, through 1995, a 96,000 square foot warehouse in Vancouver, Canada, which is partially used for manufacturing operations. At January 31, 1986, Gault employed approximately 100 persons.

Jody

Jody designs and manufactures moderate-priced women's dresses under the labels "Jody," "J.T. Dresses," "New Raves" and "Alison Peters."

Jody's offices, production and distribution facilities are located in three buildings in the Los Angeles area. One building, which is owned, contains approximately 85,000 square feet (approximately 35,000 square feet of which is leased). The other two buildings, which are leased through July 1986, contain an aggregate of approximately 65,000 square feet. It is anticipated that later this year all operations will be consolidated in the owned facility.

At January 31, 1986, Jody employed approximately 280 persons.

HRT

At January 31, 1986, HRT operated 32 Zodys self-service discount department stores located in the western part of the United States, which

carried a wide variety of merchandise. During February 1986, HRT decided to discontinue its retailing operations and by April 30, 1986, substantially all of its stores were closed.

At January 31, 1986, HRT had approximately 3,000 employees.

Miscellaneous

Substantially increased construction costs (including interest), zoning restrictions and ecological considerations, possible changes in shopping habits and certain other factors affecting the development of regional shopping centers have had, or may have, an effect on the rate of construction and expansion of large shopping centers and have resulted in significant increases in shopping center rentals. These factors may affect the nature and rate of expansion of McCrory's operations.

Alcoholic Beverages

Schenley is engaged in the production, importation, and sale of alcoholic beverages, including whiskies, gins, vodkas, rums, brandies, wines, liqueurs, cordials, and specialties.

In the year ended January 31, 1986, the largest contributor to Schenley's operating income was Dewar's White Label Scotch whisky. Dewar's White Label Scotch whisky has been distributed under contracts which have been renewed from time to time since 1936, the latest of which extends to March 31, 1989.

Products

Schenley sells domestic alcoholic beverages under a number of brands owned by it, and sells imported alcoholic beverages under brands owned by it or for which it has United States, and in some cases, overseas distribution rights.

Domestic Alcoholic Beverages - Brands of domestic whiskies owned by Schenley include Old Charter, I. W. Harper, and J. W. Dant bourbon whiskies, and George Dickel Tennessee whisky. Schenley's principal brands of blended whiskies are Schenley Reserve and J. W. Dant. Schenley also owns and licenses to a third party the trademarks Ancient Age and Ancient Ancient Age bourbon whiskies. Schenley owns several brands of domestic gins (including Schenley and J. W. Dant), brandies (including Coronet and J. Bavet), vodkas (including Samovar, Schenley, and J. W. Dant), DuBouchett cordials, Cocktails for Two and other domestic spirit beverages. Schenley owns the Dubonnet brand in the U.S. and owns and distributes Cruzan, Old St. Croix, and Ron Carioca rums from the Virgin Islands.

Imported Alcoholic Beverages - Brands of imported beverages owned by Schenley or its foreign affiliates include J. W. Dant and Park & Tilford Scotch whiskies; MacNaughton, Grande Canadian, and J. W. Dant Canadian

whiskies; Ole tequila; Fratelli Lambrusco and Siglo wines and Cruz Garcia Real Sangria. Brands of imported alcoholic beverages for which Schenley has United States distribution rights include Dewar's White Label and Dewar's 12 Scotch whiskies, Glenordie single malt Scotch whisky, and Peter Dawson "Special" Scotch whisky; OFC Canadian whisky; Power's Gold Label Irish whisky; the Stock line of vermouth, brandy and cordials; Berentzen liqueur; and Lillet aperitif. The earliest expiration date of any agreement for distribution rights in the United States is July 31, 1986 and the latest expiration date is September 24, 2003.

The following table sets forth the approximate percentage of total case sales represented by the principal categories of alcoholic beverages sold by Schenley in the United States during each of the three years ended January 31, 1986. Each principal category has been profitable. However, Schenley's profits on the sale of straight whiskies and Scotch whiskies are generally higher than on the sales of its other products. Approximately 56% of Schenley's case sales in the United States are of imported products, principally Scotch and Canadian whiskies.

	Year Ended January 31,		
	1986	1985	1984
Scotch whiskies	33.2%	30.9%	28.0%
Straight whiskies	17.3	16.7	15.8
Wines*	12.2	11.5	14.8
Canadian whiskies	11.1	12.2	11.1
Gins and vodkas	7.4	8.3	9.1
Blended whiskies	2.5	3.0	3.5
Rums, brandies, cocktails, cordials, etc.	16.3	17.4	17.7

* On February 4, 1986, Schenley sold the assets relating to its Dreyfus Ashby wine importing operations.

Distribution and Marketing

In the domestic market, 18 states and Montgomery County, Maryland have established liquor distribution systems under which sales of alcoholic beverages are made directly through their liquor control boards and commissions. Schenley sells to all of these boards and commissions. In the remaining 32 open states and in the District of Columbia, Schenley sells through conventional distribution channels, principally to outside wholesalers. In the year ended January 31, 1986, no wholesale distributor accounted for more than 7.4% and no state control board accounted for more than 3.7% of total cases sold. The greater portion of Schenley's sales are made in the open states.

Schenley advertises its products extensively through various media, including magazines, newspapers, outdoor signs, and posters and point-of-sale promotional material, and, in addition, radio and television for wines. Advertising and promotional activities in the industry are subject to

regulation under Federal, state, and local laws and regulations, which vary considerably, and concern, among other things, permissible media and content. In certain media, advertising of distilled spirits is not accepted as a matter of policy. Schenley currently utilizes one primary independent advertising agency. In the years ended January 31, 1986, 1985 and 1984 Schenley spent approximately $33,000,000, $38,000,000 and $42,000,000, respectively, for advertising.

Foreign Operations

Schenley owns a 49.3% interest in AGE Bodegas Unidas, S.A., a Spanish company. See "Property" below for the plants and properties owned by such Spanish affiliate.

Major trademarks of Schenley are registered in various countries. Trademark licensing agreements are in effect with customers in eight foreign countries and overseas territories who produce products under the trademarks on a royalty basis. Other trademark licensing agreements are in effect with customers in 13 foreign countries and overseas territories and dependencies on a royalty-free basis where the bulk goods required for bottling are purchased from Schenley. Sales by Schenley to, and revenues derived from, customers in foreign countries are not material.

Competition

The alcoholic beverage industry is highly competitive and Schenley competes with both domestic and foreign companies. In the United States market there are many competitors, a number of which market both distilled spirits and wines. Competition is principally on the basis of price and product quality, with advertising an important factor. The management of Schenley believes that its products are generally competitive with respect to these factors.

Inventories and Raw Materials

Straight whiskies, to be designated as such under applicable regulations, must be aged for at least two years in new charred white oak barrels. Schenley and other distillers age their whiskies for four years or more. As a result, inventories in the alcoholic beverage industry are larger in relation to sales and to total assets than would be normal for many other businesses. Production is scheduled to meet the anticipated demand four years or more in the future.

The principal supplies and materials used in the production of Schenley's products are grains, molasses, white oak barrels, flavoring, and bottling supplies. Schenley purchases its grains and other materials from numerous sources. Since many of the raw materials used in the production of Schenley's alcoholic beverages are agricultural products, prices and costs are subject to the influences common to those products, including climate and

governmental influences on production and marketing. Schenley purchases its requirements of barrels, bottles, and other packaging materials from various manufacturers and distributors.

Effective as of October 1, 1981, Schenley sold its wholly-owned subsidiaries in Canada. As part of the sale, Schenley Canada, Inc. (an unrelated party) set aside for Schenley Canadian whisky in bulk for future bottling in Canada and subsequent importation and distribution in the United States. In addition, Schenley entered into a long-term supply contract, pursuant to which Schenley Canada, Inc. supplies Canadian whisky to Schenley for sale in the United States. See Note 14 to Financial Statements.

Regulation and Taxation

The alcoholic beverage industry is subject to Federal and state legislation and to the rules and regulations of Federal agencies and various state and local agencies. Such regulations cover almost every aspect of the business, including production facilities, labels, packaging, advertising, and marketing.

Many states require advance filing or publication of prices to wholesalers, retailers or consumers, resulting in time lags of varying lengths before prices can be changed. Twenty-two states have adopted laws or regulations requiring distillers to affirm that prices charged in the state are no higher than corresponding prices charged in any other state. States in which alcoholic beverages are distributed through state agencies have, for many years, required suppliers to make similar warranties. Several states regulate the mark-up which may be made at the wholesale or retail level, or both. In addition, the laws of certain states permit counties and townships, by local option, to elect to prohibit or restrict the sale of alcoholic beverages in whole or in part. Production and sales are subject to varying types of regulation, licensing, and supervision in other countries.

The products sold by Schenley are subject to Federal excise taxes on distilled spirits and wines as well as varying Federal customs duties on imports. The rate of Federal excise tax on all distilled spirits is $12.50 a proof gallon. Distilled spirits are subject to other excise taxes, the most important of which are state gallonage taxes, varying in amount from $1.75 to $6.50 a wine gallon. Imported distilled spirits and wines are also subject to customs duties at varying rates.

The law with respect to the establishment and operation of distilled spirits plants provides for an "All-in-Bond" system. Under such system, the entire premises of a distilled spirits plant are treated as bonded premises, with certain exceptions, and the government has instituted a post-audit system for verifying proprietors' compliance with the law and regulations.

Labor Relations

At January 31, 1986, Schenley employed approximately 800 people in the United States.

Schenley has contracts covering wages, hours of employment, working conditions, and related matters with a number of labor unions, expiring at various dates to December 31, 1989, covering substantially all of the hourly-rated and certain of the salaried employees in the United States. In general, labor relations have been satisfactory and there have been no strikes in recent years that had a material effect on Schenley's overall business.

Schenley maintains noncontributory pension plans and other contributory and noncontributory benefit plans for its employees, and contributes to union pension and welfare plans. See Note 12 to Financial Statements.

Property

Schenley operates four plants for the production of distilled alcoholic beverages. These plants have an aggregate daily distilling capacity of approximately 95,000 proof gallons of whiskey or distilled spirits; facilities for bottling, under normal conditions, an aggregate of approximately 28,500 standard cases of product in an eight-hour day; and storage facilities for approximately 1,300,000 barrels of aged and aging distilled spirits. Schenley's partially-owned Spanish affiliate operates wineries with an aggregate daily production capacity of 23,700 cases. In addition, Schenley owns two inactive plants. Schenley also owns a commercial building in New York City containing approximately 117,000 square feet, which is leased to third parties.

The principal domestic whiskey plants are located at Lawrenceburg, Indiana; Louisville, Kentucky; and Tullahoma, Tennessee. Schenley has a plant for the distillation of rum in the United States Virgin Islands.

Schenley owns all of its distilleries and plants. They are generally of sound construction, and, except for the inactive plants, are adequately equipped for carrying on Schenley's business and are generally in good operating condition.

Environment

Schenley's plants are subject to Federal, state, and local pollution control regulations. Management of Schenley believes it is currently in full compliance with such regulations at all its plants in the continental United States and has not received any indication to the contrary from governmental authorities. No major capital expenditures for pollution control compliance are anticipated for these plants for the foreseeable future.

A wholly-owned subsidiary of Schenley, Virgin Islands Rum Industries, Ltd. ("VIRIL"), owns and operates a rum distillery in the United States Virgin Islands. The wastes from rum distillation are, and have for many years been, discharged directly into the ocean some 1,800 feet off the south shore of St. Croix. Accordingly, the disposition of these wastes is subject to regulation under the Federal Water Pollution Control Act. In 1975, VIRIL challenged the restrictive effluent limitations included in a draft discharge permit issued by the U.S. Environmental Protection Agency ("EPA"). A hearing

on the matter commenced in July 1977, but has remained in recess since that time.

In September 1979, VIRIL, EPA, and the Virgin Islands Department of Conservation and Cultural Affairs ("DCCA") (the local agency responsible for enviromental preservation) entered into a tentative agreement under which VIRIL would construct, and place in operation by early 1983, an anaerobic waste treatment facility at a projected cost of $3,500,000. The agreement also barred any attempt to impose civil or criminal penalties on VIRIL on account of its prior discharges. The Stipulation of Settlement was never executed although, until November 1981, all three parties acted as if it had been. Prior to November 1981, VIRIL acquired land for the treatment facility, hired a consulting engineer, and solicited and received bids for construction of the treatment facility. On July 13, 1981, VIRIL filed a Request for Reconsideration with EPA, which, as supplemented, stated that VIRIL should not be required to build the treatment facility because its effluence did not harm the environment and VIRIL's competitive and economic circumstances had changed materially since 1979.

On April 9, 1982, EPA published a notice in the Federal Register calling for public comment on the pending VIRIL Request for Reconsideration and set May 24, 1982, as the date such comments would be due. VIRIL filed two sets of comments in response to the Agency's notice. VIRIL has also requested that EPA give it assurances that discharges during the pendency of VIRIL's Request for Reconsideration would not be considered in violation of Federal law.

In August 1984, the Governor of the Virgin Islands issued a determination which in effect exempts VIRIL from the discharge requirements of the Clean Water Act. By this action, the previous proceedings between VIRIL and the EPA have been rendered moot and the Virgin Islands authorities now have the power to determine, under territorial law, the terms and conditions under which VIRIL will discharge its effluent.

VIRIL has submitted its completed Territorial Pollution Discharge Elimination System permit application to DCCA, and the issuance of a final and effective permit to VIRIL is pending. In the interim, VIRIL has requested permission from DCCA to continue the discharge of its effluent without the final permit. In January 1986, DCCA published the initial draft permit for public hearings and the final permit is expected to be issued later this year.

Consumer Products

McGregor manufactures (a) moderate-priced tailored suits and sport coats sold under the "Botany '500'," "Coat Tails," "Botany," "Worsted-Tex," "Fashion Park," "Stein Bloch," "Broadstreet's," "Cartier," and "Bert Pulitzer" trademarks and under private labels; (b) men's, women's and children's athletic shirts, sport shirts, T-shirts and bottoms sold under the "Anvil," "Wonderknit," "Scoreboard," "Bert Pulitzer," "Botany," "Botany '500'," "Billy the Kid" and "Bill Blass" trademarks and under private labels; and (c) women's nightwear, gowns and robes sold under the "Gilead" and "Gillies" trademarks

and under private labels. McGregor's wholly-owned subsidiary, Faberge, is principally engaged in the development, manufacture, and worldwide distribution of men's and women's toiletries, fragrances, and haircare products sold under the "Faberge," "Brut," "Aqua Net," "Babe" and various other trademarks. McGregor licenses the trademarks "McGregor," "Botany '500'," "Bert Pulitzer," and "Billy the Kid," for use on men's, women's, and children's apparel products and "Faberge," "Brut," "Babe," and other trademarks on various consumer products. These licensed products are sold both in the United States and abroad. McGregor provides a number of services to its licensees, including overall design and marketing services.

Sales and Distribution

McGregor sells directly to retail outlets throughout the United States through its own sales force. The men's clothing line is advertised on television and radio and in newspapers, national magazines, and trade publications.

Faberge's products are sold by its own sales force, which is augmented by manufacturers' representatives. Its products are sold directly to retail outlets and, in some cases, through wholesalers.

Raw Materials

Certain apparel operations of McGregor use both knit and woven cloth in the manufacture of apparel. The knitwear line has knitting mills where most of the various types of knitted cloth required in the operations are fabricated in their entirety from yarn. Other McGregor operations purchase their finished cloth requirements primarily from domestic suppliers.

McGregor purchases the major portion of its tailored clothing fabric from domestic suppliers. Raw materials for Faberge's products are purchased from a number of sources, and no supplier accounts for more than 5% of such purchases.

Labor Relations

At January 31, 1986, McGregor employed approximately 6,900 persons of whom approximately 6,600 were engaged in manufacturing, 150 were engaged in sales, 10 were engaged in licensing, and 140 were engaged in administrative functions. Approximately 2,900 employees engaged in manufacturing and certain other employees are covered by collective bargaining agreements. One such agreement, covering approximately 1,300 employees, expires in November 1987. Another agreement covering 1,200 employees expires in October 1986. The agreements covering the remaining employees expire through August 1988. McGregor sponsors contributory and noncontributory profit-sharing and other benefit plans for substantially all its employees and contributes to union pension and welfare plans. Such plans cover substantially all of McGregor's employees. The management of McGregor believes that its relations with its employees have been satisfactory, and there have been no work stoppages in recent years.

Competition

McGregor faces active competition with respect to all of its businesses. The principal methods of competition include price, product quality, brand recognition, ability to meet shipment schedules, selling and servicing the trade, direct and indirect advertising to the consumer, and the utilization of special promotional programs to deal with particular requirements, opportunities or market segments. The management of McGregor believes it is generally competitive with respect to these factors.

Property

McGregor operates 22 manufacturing, warehousing and distribution, facilities in the United States of which 14, containing an aggregate of approximately 2,600,000 square feet of space, are owned, and 8, containing an aggregate of approximately 450,000 square feet of space, are leased. In addition, McGregor owns or leases 10 facilities containing an aggregate of approximately 500,000 square feet in Canada and Europe. McGregor also operates a number of sales offices. Management believes that McGregor's facilities are capable of meeting its current operating requirements.

Item 2. Properties.

Rapid leases approximately 300,000 square feet of office space at 888 Seventh Avenue, New York, New York (under a lease expiring in 2005), of which approximately 48,000 square feet are occupied by Rapid and certain of its subsidiaries and the balance is subleased. In addition, Rapid leases approximately 100,000 square feet of office space at 645 Fifth Avenue, New York, New York (under a lease expiring in the year 2000), which is subleased.

During December 1985, Rapid leased approximately 25,000 square feet of office space at 725 Fifth Avenue, New York, New York (under a lease expiring in the year 2000). Rapid and McCrory anticipate moving their executive offices to this location later this year and Rapid will sublease a comparable amount of space currently occupied at 888 Seventh Avenue.

Reference is made to Item 1 - "Business" for information concerning the operating facilities of Rapid and its subsidiaries.

Item 3. Legal Proceedings.

Various legal proceedings are pending relating to transactions in which Rapid or its subsidiaries have been involved. These lawsuits have been brought against various defendants, including Rapid, its subsidiaries and predecessors, and certain of their respective officers and directors.

Asbestos Litigation

Rapid and Glen Alden Corporation ("Glen Alden"), a predecessor of Rapid, together with other corporations which allegedly are or were miners, manufacturers and distributors of asbestos or products containing asbestos, are defendants in a number of actions filed in several states alleging injuries to the health, or wrongful death, of individuals exposed to asbestos or products containing asbestos. There are approximately 84 such actions currently pending against Rapid or Glen Alden in which an aggregate of approximately 122 individuals are seeking compensatory and punitive damages. In addition, a number of property damage actions have been commenced by states, municipalities, political subdivisions, and boards of education against corporations whose asbestos products were allegedly installed in public buildings and against corporations responsible for such installations. Such actions typically seek large compensatory and punitive damages from numerous defendants and require the defendants to remove or encapsulate the asbestos and indemnify plaintiffs from liability. During 1984 and 1985, Rapid was named as a defendant in six such actions, but was subsequently dismissed as a party. It is likely that additional asbestos actions by individuals and by states, municipalities and others will be commenced in the future.

Neither Rapid nor Glen Alden is or ever was directly involved in the mining, manufacture, sale, distribution or installation of asbestos or products containing asbestos. In 1966, Glen Alden acquired 28% of the outstanding shares of The Philip Carey Manufacturing Company, an Ohio corporation ("Old Carey"). Since its incorporation in 1888, Old Carey had been engaged in, among other things, the manufacture of products containing asbestos fibers and since 1915, through a Canadian subsidiary, it owned and operated asbestos mines and mills. On June 1, 1967, Old Carey was merged into Glen Alden and the assets, properties and businesses of Old Carey were contemporaneously transferred to a newly-formed wholly-owned subsidiary called The Philip Carey Manufacturing Company, an Ohio corporation ("New Carey"). As part of such transaction, New Carey contractually assumed and indemnifed Glen Alden (the "Indemnification Agreement") against all of the liabilities of Old Carey to which Glen Alden might become subject as a result of the aforesaid merger. From and after June 1, 1967, the asbestos business formerly conducted by Old Carey was carried on by New Carey. In April 1970, New Carey merged with Briggs Manufacturing Company, in which Glen Alden then had a 48% interest, to form Panacon Corporation ("Panacon"). On April 17, 1972, Glen Alden sold all of its shares of Panacon, representing approximately 89% of the outstanding shares thereof, to The Celotex Corporation ("Celotex"), a wholly-owned subsidiary of Jim Walter Corporation. Thereafter, Panacon was merged into Celotex. In all of the asbestos actions in which Rapid or Glen Alden is a party, each has asserted or will assert claims for indemnification against Celotex as the successor in interest to New Carey and Panacon under the Indemnification Agreement. In certain of the actions in which such claims have been made, Celotex denied Rapid's and Glen Alden's claims and asserted affirmative defenses with respect thereto. In other such actions, Celotex was deemed to have denied such claims.

On or about November 1, 1985, Rapid entered into an agreement with Celotex (the "Celotex Agreement") for, among other things, (i) the resolution

of certain controversies between Rapid and Celotex relating to their respective rights under certain insurance policies providing insurance for asbestos-related claims and (ii) the indemnification by Celotex of Rapid, commencing on the date of the Celotex Agreement and continuing through December 31, 1989 (which indemnification may be extended or become permanent under certain circumstances), against all asbestos-related claims including bodily injury, wrongful death and property damage claims to which Rapid or Glen Alden has or may become subject as a result of the merger of Old Carey into Glen Alden, all without prejudice to Rapid's rights under the Indemnification Agreement or to Rapid's entitlement to indemnification or contribution from Celotex which would otherwise be available to it. Additionally, in consideration of Rapid's entering into the Celotex Agreement, Celotex agreed, among other things, that any claims which it has asserted against Rapid in any asbestos-related action will be dismissed with prejudice. To the extent that any judgments which might be entered against Rapid are not satisfied by Celotex under the provisions of the Celotex Agreement or the Indemnification Agreement, Rapid would seek indemnification from its insurance carriers and those which had insured Old Carey and New Carey.

To date none of the asbestos cases in which Rapid or Glen Alden is a defendant has been tried and, except for the settlement of four actions in which an insurance carrier on behalf of Rapid has paid an aggregate of $15,850, neither Rapid nor Glen Alden nor any insurance carrier on behalf of either has been required to pay any sums in connection with any of the asbestos actions which have been settled, although insurance acquired by Celotex as a result of its acquisition of Panacon was used by Celotex to effect settlements.

Since 1966, when Glen Alden first acquired its interest in Old Carey, primary product liability coverage for bodily injury and property damage has been maintained by Rapid or Glen Alden having aggregate annual policy limits in the sum of $3,000,000. Rapid believes that the product liability coverage under its primary policies for 1969 through 1973 may have been exhausted. In addition to primary insurance, Rapid and Glen Alden have maintained excess liability insurance coverage substantially over the amount of the primary insurance coverage. Commencing with 1985, coverage for asbestos related damage and injuries has been excluded from most excess liability insurance policies.

While the aggregate amount of damages sought to be recovered by plaintiffs in the actions in which Rapid or Glen Alden is a defendant is substantial, the actual amounts of various settlements of actions in which Rapid or Glen Alden was not required to contribute have been significantly less than the amounts demanded in plaintiffs' complaints, and payment of the amounts of the settlements has been divided among various of the settling defendants or their insurance carriers.

Litigation Regarding the Acquisition of Faberge

On or about February 1, 1984, an action was instituted in the United States District Court for the Southern District of New York by Doe Diamond,

allegedly a shareholder of Faberge, on behalf of all shareholders of Faberge similarly situated. The complaint names as defendants Faberge, Faberge's directors who were in office on January 19, 1984 and a former director, Gibbons, Green, Van Amerongen ("Gibbons Green"), and McGregor. The complaint alleges fraud, illegality, and waste of corporate assets on the part of Faberge and the individual defendants by reason of certain employment contracts and amendments to employment contracts covering certain former executive officers of Faberge, the payment of allegedly excessive compensation, and the breach by one of such officers of his employment contract. The complaint also alleges waste of corporate assets and breach of their fiduciary duties on the part of Faberge directors who were in office on January 19, 1984, in connection with the payments of money and the grant of a stock option to Gibbons Green, and that Gibbons Green assisted in such breach. The complaint further alleges that the price offered by McGregor in its tender offer for Faberge was unfair to the shareholders of Faberge in that the price was reduced to account for the allegedly wrongful employment agreements and that the tender offer materials omitted to state material facts, including the alleged illegality of the various employment agreements and other alleged misconduct of the individual defendants, in violation of Section 14(e) of the Securities Exchange Act of 1934, as amended. The complaint seeks, among other things, to enjoin the tender offer (which was consummated during March 1984), to require the individual defendants to account to the plaintiff and to the class represented by her for alleged profits; damages in an unspecified amount; and an award to the plaintiff of her costs and expenses of the action, including reasonable attorneys' fees.

Following the merger of a wholly-owned subsidiary of McGregor and Faberge during August 1984, McGregor, Faberge and the Faberge directors moved to dismiss the action for failure to state a claim upon which relief can be granted and lack of subject matter jurisdiction over the claims arising under state law. The motion has been under consideration by the court since February 1985. Pending decision of the motion, discovery has been stayed and plaintiff's application for class certification has been held in abeyance.

Litigation Regarding McGregor Going Private

On or about December 26, 1984, Joseph E. Kovacs commenced an action (the "Kovacs Action") in the Supreme Court of the State of New York, New York County against Rapid, McGregor and the members of McGregor's Board of Directors. The Kovacs Action was commenced as a class action on behalf of plaintiff and all other owners of the common stock of McGregor on December 6, 1984. The action allegedly arose from the announcement on or about December 6, 1984 by Rapid that it had offered to take McGregor private for $23 per share. The complaint alleged, <u>inter alia</u>, that the plan to take McGregor private (which was consummated during March 1985) was an attempt to force out the public shareholders of McGregor at a price far less than the value of McGregor's shares, assets or businesses and that the price was fixed arbitrarily by Rapid as part of a plan to obtain for itself ownership of McGregor's assets and businesses at the lowest possible price and to obtain for itself benefits disproportionate to those received by the public shareholders of McGregor.

On or about February 22, 1985, Fairbear Enterprises commenced an action (the "Fairbear Action") in the Supreme Court of the State of New York, New York County against Rapid, McGregor, Drexel Burnham Lambert, Incorporated ("Drexel") and the directors of Rapid. The Fairbear Action was commenced on behalf of the plaintiff and all other owners of the common stock of McGregor. The action allegedly arose from the issuance by McGregor of a Notice of Special Meeting of Shareholders, which was held on March 13, 1985, to vote on a plan of merger whereby McGregor would be taken private for $23 per share. The complaint alleged, inter alia, that the plan to take McGregor private was an attempt to freeze out the public shareholders of McGregor at a price far less than the value of McGregor's shares, assets or businesses and that the price was fixed arbitrarily by Rapid in concert with Drexel as part of a plan to obtain for Rapid ownership of McGregor's assets and businesses at the lowest possible price and to obtain for Rapid benefits disproportionate to those received by the public shareholders of McGregor.

On or about January 10, 1986, the Kovacs Action and the Fairbear Action were consolidated by order of the court. On or about February 11, 1986, a Consolidated and Amended Class Action Complaint was served by Joseph E. Kovacs and Fairbear Enterprises. The complaint names as defendants McGregor, certain current and former directors of McGregor, Rapid, Meshulam Riklis and Drexel. The complaint contains allegations which are similar to those contained in the complaints in the original Kovacs Action and Fairbear Action. The complaint seeks a declaration that the proxy statement issued by McGregor in connection with the transaction was materially false and misleading, an order rescinding the vote of McGregor's shareholders taken in connection with the transaction, an order requiring defendants to divest themselves of any profits or benefits obtained by them in connection with the transaction and to account for all damages suffered by plaintiffs and the class allegedly represented by them, together with an award of costs and disbursements of the action including attorneys' fees.

Litigation Regarding HRT Going Private

On or about October 5, 1984, an action was instituted in the Court of Chancery of the State of Delaware by Harry Lewis, allegedly a stockholder of HRT, on behalf of all stockholders of HRT similarly situated. The complaint names as defendants, among others, HRT, the Joint Venture, McCrory, Rapid, and certain current and former directors of HRT. The complaint alleges that the proposed going private transaction announced in October 1984 (which was consummated during April 1985), pursuant to which the Joint Venture would acquire the remaining 45% of the shares of HRT's common stock not held by it, serves no legitimate business purpose of HRT but is part of an unlawful plan and scheme designed for the purpose of eliminating the minority stockholders of HRT and allowing the Joint Venture to acquire the entire equity interest in HRT for a fraudulently low and unfair price, and that, as a result of the foregoing, the defendants have willfully participated in or aided and abetted the perpetration of a fraud on, and have breached their fiduciary duty to, the minority stockholders of HRT. The complaint seeks, among other things, to enjoin the proposed going private transaction; to require the defendants to account to the plaintiff and to the class represented by him for alleged

profits; an award of money damages in an unspecified amount; and an award to the plaintiff of his costs and expenses of the action, including reasonable attorneys', accountants' and experts' fees. This action has been inactive since the consummation of the going private transaction.

On or about December 6, 1985, an action was instituted in the United States District Court for the District of Delaware by Pay T.V. of Greater N.Y., Inc. and Lullaby Infants Wear Co., Inc., allegedly former stockholders of HRT, on behalf of themselves and all former stockholders of HRT similarly situated. The complaint names as defendants HRT, McCrory, Rapid, certain directors and former directors of HRT, and Meshulam Riklis. The complaint alleges, inter alia, that the HRT going private transaction was part of an unlawful scheme of the defendants to acquire the minority interest in HRT at an unfair and inadequate price; that the going private transaction was accomplished by means of false and misleading proxy solicitation materials in violation of Sections 13(e) and 14(a) of the Securities and Exchange Act of 1934, as amended; and that, in connection therewith, the individual defendants breached their fiduciary duty under Delaware law. The complaint seeks, among other things, a declaration that the going private transaction was unfair to the plaintiffs and the class they purport to represent; an award of money damages in an unspecified amount; the imposition of a constructive trust on the alleged illegal profits and benefits obtained by defendants by reason of their alleged wrongdoing; and an award to plaintiffs of their costs of the action, including reasonable attorneys' and experts' fees, and disbursements. The defendants have answered the complaint in this action denying the allegations and asserting certain affirmative defenses.

Litigation Regarding the Sale of Lerner

On or about September 20, 1985, an action was instituted in the United States District Court for the Southern District of New York by The Limited, Inc. against Rapid, McCrory, Holding, certain current and former directors and officers of such corporations, including Stephen L. Pistner, Harold S. Divine, and Meshulam Riklis, DBG Financial Company ("DBG"), the partners of DBG (one of which is Harold S. Divine), Touche Ross & Co. ("Touche"), and certain other individuals. The complaint alleges that in connection with the negotiations and contemplated sale of Lerner at a purchase price based upon an amount in excess of Lerner's book value, each of the defendants, with the exception of Touche, entered into a plan and conspiracy fraudulently to inflate the value of the assets of Lerner and fraudulently to conceal and therefore understate the amount of Lerner's liabilities. The complaint further alleges that defendants failed properly to mark down Lerner's inventory and to disclose that the term of an equipment operating lease between Lerner and DBG had been extended. Plaintiff asserts that it was damaged in an undetermined amount as a result of the wrongs alleged and because the certified financial statements of Lerner for the year ended January 31, 1985 did not reflect the true book value of Lerner. Plaintiff seeks damages against each defendant in an amount to be determined, treble damages against all defendants other than Touche for violation of the federal anti-racketeering statute, and costs, including reasonable attorneys', accountants', and experts' fees. See Item 13 - "Certain Relationships and Related Transactions," paragraph 33.

Litigation Regarding T. G. & Y. Stores

In October 1985, Apparel Exchange, Inc. ("Apparel Exchange") commenced an arbitration proceeding against T. G. & Y. Stores before the American Arbitration Association in the State of New York seeking damages of approximately $6,200,000 arising from the alleged breach by T. G. & Y. Stores of an agreement, dated August 8, 1983, as amended, whereby Apparel Exchange agreed to buy brand name off-price apparel for T. G. & Y. Stores through December 31, 1986. On or about October 8, 1985, T. G. & Y. Stores terminated the agreement because Apparel Exchange had failed to perform its obligations and as a result, T. G. & Y. Stores did not realize significant profits that would have been derived from sales of the merchandise. In November 1985, T. G. & Y. Stores filed a motion to stay the arbitration and commenced an action in the Supreme Court of the State of New York against Apparel Exchange to recover damages in excess of $10,000,000 arising from Apparel Exchange's breach of the agreement. By a decision dated April 21, 1986, the New York State Supreme Court denied T. G. & Y. Stores' motion to stay the arbitration. T. G. & Y. Stores is currently considering whether to appeal such decision.

T. G. & Y. Stores is a party in 13 separate actions (all of which were pending at the time McCrory acquired T. G. & Y. Stores except one which was commenced during February 1986) in which claims are asserted against T. G. & Y. Stores by approximately 114 former employees arising from the termination of their employment following investigations conducted during April 1984 by T. G. & Y. Stores into employee misconduct. The claims against T. G. & Y. Stores in these actions, which allege, inter alia, that T. G. & Y. Stores wrongfully discharged employees and engaged in abuse of process and defamation of character, seek substantial compensatory and punitive damages. Pursuant to the agreement whereby McCrory purchased T. G. & Y. Stores, McCrory is indemnified against any liabilities in connection with the foregoing actions to the extent such liabilities exceed $5,000,000 over the amount reserved with respect to such actions by T. G. & Y. Stores at December 31, 1985. An agreement in principle has been reached to settle the claims of 15 of the former employees for an aggregate of $122,000.

Additional Litigation, etc.

Various other legal proceedings including governmental proceedings and investigations by Federal and state regulatory agencies having jurisdiction over aspects of the business and affairs of Rapid and its subsidiaries are pending against or otherwise relate to Rapid and its subsidiaries, involving miscellaneous causes of action arising from their businesses, including, but not limited to, income tax matters, commercial cases arising out of agreements or alleged agreements, personal injury and property damage matters, labor disputes, employment discrimination actions, and other actions. A proceeding is pending before the Environmental Protection Agency involving Schenley (see Item 1 - "Business-Alcoholic Beverages-Environment"). Management does not consider any of these proceedings or investigations to be material.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

All of the shares of Rapid Common Stock are owned by Holding. See Item 12 - "Security Ownership of Certain Beneficial Owners and Management."

During the years ended January 31, 1986 and 1985, cash dividends of $2,295,000 and $6,324,000, respectively, were declared on Rapid Common Stock. See Item 13 - "Certain Relationships and Related Transactions" for a description of certain non-cash dividends declared by Rapid during the year ended January 31, 1986.

Rapid

The Indenture for Rapid's 10% Sinking Fund Subordinated Debentures, due 2006 (the "10% Debentures"), provides that Rapid will not (i) declare or pay any dividend or make any distribution on its capital stock or to its stockholders (other than dividends or distributions payable in its capital stock) or (ii) purchase, redeem or otherwise acquire or retire for value any of its capital stock or permit any subsidiary to do so, if at the time of such action an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes subsequent to January 31, 1981 shall exceed the sum of (a) 85% of the aggregate of the (i) consolidated net income of a predecessor of Rapid (see "Introductory Note") for the fiscal year ended January 31, 1981, less any dividends paid by such predecessor on shares of its capital stock during such fiscal year and (ii) consolidated net income of Rapid subsequent to January 31, 1981, (b) the aggregate net proceeds received by Rapid from the issue or sale after January 31, 1981 of capital stock of Rapid, and (c) the aggregate net proceeds received by Rapid from the issue or sale of any indebtedness of Rapid converted after January 31, 1981 into capital stock of Rapid; provided, however, that such provisions will not prevent the payment of any dividend within 60 days after the date of declaration if the payment complied with the foregoing provisions on the date of declaration, or the retirement of any shares of Rapid's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of its capital stock. At January 31, 1986, the amount available under the foregoing was approximately $32,000,000.

The Indentures, as amended, for Rapid's 14-1/2% Senior Subordinated Notes, due 1994 ("14-1/2% Notes") and Serial Zero Coupon Senior Subordinated Debentures, due 1987 through 2007 ("Zero Debentures"), each provide that subsequent to January 31, 1984, Rapid will not (i) declare or pay any dividend or make any distribution on its capital stock or to its stockholders (other than dividends or distributions payable in its capital stock), (ii) make or permit to remain outstanding any loans to Affiliates (as defined) or Executive Officers (as defined) of Rapid or any Subsidiary (as defined), or (iii) purchase, redeem or otherwise acquire or retire for value any of its capital stock or permit any Subsidiary to do so, if at the time of such action

an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes shall exceed the sum of (a) $125,000,000, (b) 50% of consolidated net income (as defined) of Rapid subsequent to January 31, 1984 or 66-2/3% of consolidated net income of Rapid subsequent to the date that all Guarantees (as defined) have been extinguished (the Indentures provide that, with certain exceptions, on or before January 31, 1990, all Guarantees of Affiliates in existence on January 31, 1984 will be extinguished and that Rapid will not enter into any additional Guarantees for the benefit of Affiliates or Executive Officers), (c) the aggregate net proceeds received by Rapid from the issue or sale after January 31, 1984 of capital stock of Rapid (other than mandatory redeemable preferred stock), (d) the carrying value of any indebtedness (including mandatory redeemable preferred stock) of Rapid converted after January 31, 1984 into capital stock of Rapid, and (e) all dividends paid on the capital stock of Rapid and loans made by Rapid or any of its Subsidiaries (as defined) to Holding or any wholly-owned subsidiary of Holding, as long as such dividends or loans are used to pay interest or principal on up to $110,000,000 aggregate principal amount of Holding's 16% Notes due 1995 or any loan obtained by Holding or any of its wholly-owned subsidiaries to redeem or otherwise acquire the 16% Notes; provided, however, that such provisions will not prevent the payment of any dividend, or the making of any loan or the purchase, redemption, or other acquisition of capital stock within 60 days after the date of declaration of such dividend or commitment to make such loan, purchase, redemption or other acquisition, if the payment complied with the foregoing provisions on the date of declaration or commitment, or the retirement of any shares of Rapid's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of Rapid's capital stock. At January 31, 1986, the amount available under the foregoing was approximately $28,000,000. The Indenture for the 14-1/2% Notes also provides that, under certain circumstances, a portion of the proceeds in excess of $150,000,000 from the sale of assets not in the ordinary course of business by Rapid and its subsidiaries will be used to retire certain indebtedness, which may include the 14-1/2% Notes and Zero Debentures.

McCrory

On February 26, 1986, McCrory entered into a revolving credit agreement with 10 banks providing for a $165,000,000 unsecured revolving credit facility until January 31, 1989, which may be used as a back-up line for the issuance of commercial paper. The credit agreement contains a restriction limiting the payment of common stock dividends to 50% of McCrory's consolidated net income (as defined). In addition, the credit agreement contains other material restrictions on McCrory and its subsidiaries relating to advances to Rapid, incurring indebtedness and maintaining certain financial ratios. McCrory has guaranteed certain indebtedness of HRT to a bank pursuant to an agreement which contains the same restrictions as the credit agreement.

The Indenture for McCrory's 15-3/4% Senior Subordinated Notes, due 1991, and Senior Subordinated Exchangeable Variable Rate Notes (collectively the "Notes"), provides that subsequent to January 31, 1984, McCrory will not (i) declare or pay any dividend or make any distribution on its capital stock or to its stockholders (other than cash dividends on McCrory's preference

stocks outstanding as of the date of the Indenture and dividends or distributions payable in its capital stock) or (ii) purchase, redeem or otherwise acquire or retire for value any of its capital stock or permit any Subsidiary (as defined) to do so, if at the time of such action an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes subsequent to January 31, 1984 shall exceed the sum of (a) $20,000,000, (b) 75% of Consolidated Net Income (as defined) of McCrory subsequent to January 31, 1984, (c) the aggregate net proceeds received by McCrory from the issue or sale after January 31, 1984 of capital stock (other than mandatory redeemable preferred stock) of McCrory, and (d) the net carrying value of any indebtedness of McCrory (including mandatory redeemable preferred stock) converted after January 31, 1984 into capital stock of McCrory; provided, however, that such provisions will not prevent the payment of any dividend or the purchase, redemption or other acquisition of capital stock within 60 days after the date of declaration of such dividend or commitment to make such purchase, redemption or other acquisition if the payment complied with the foregoing provisions on the date of declaration or commitment, or the retirement of any shares of McCrory's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of its capital stock. The Indenture also provides that, with certain exceptions, McCrory will not make any guarantees for the benefit of an Affiliate (as defined) or any Executive Officer (as defined) of Rapid, McCrory or any Subsidiary. At January 31, 1986, the amount available under the foregoing was approximately $136,000,000.

The Indenture for the Notes provides that at any time or from time to time McCrory may make interest bearing advances to Rapid; provided, however, that at the time of each such advance the Ratio of Earnings to Fixed Charges (as defined) for the 12-month period ended at the end of the fiscal quarter preceding the fiscal quarter in which such advance is made, after giving effect to such advance and any related borrowings, is at least equal to or exceeds 1.5 to 1. Any guarantees by McCrory of obligations of Rapid shall be treated on a pro forma basis as an advance. Any dividends payable to Rapid on its shares of McCrory capital stock and payments due to Rapid on account of Federal, state or local taxes under tax-sharing arrangements between McCrory and Rapid shall not be treated as repayments of any outstanding advances and such payments for dividends and taxes may be made without regard to the foregoing restriction. To the extent an advance is made after the end of a fiscal quarter for which the Ratio of Earnings to Fixed Charges for the 12-month period then ended is less than 1.5 to 1 a portion or all of such advance will be repaid.

The Indenture for the Notes also provides that, under certain circumstances, a portion of the proceeds in excess of $80,000,000 from the sale of assets not in the ordinary course of business by McCrory and its subsidiaries will be used to retire Notes.

Schenley

During December 1985, Schenley entered into a secured credit agreement with two banks providing for a credit facility until December 1986, in an aggregate principal amount of up to $75,000,000 in Pound Sterling equivalent

to be used for purchases of marketable securities and collaterized by the securities purchased. The credit agreement contains a restriction limiting the payment of dividends (other than dividends paid by reducing or cancelling receivables from Rapid in an amount not to exceed the amount shown on Schenley's consolidated balance sheet at October 31, 1985 as marketable securities and notes receivable from Rapid) to 70% of the consolidated net earnings after taxes of Schenley and its Subsidiaries (as defined) on a cumulative basis from August 1, 1985. In addition, the credit agreement contains other material restrictions on Schenley and its Subsidiaries relating to incurring indebtedness, guarantees, investments, and maintaining certain financial ratios.

McGregor

On January 21, 1986, McGregor entered into a five-year revolving credit agreement with a group of banks providing for a $90,000,000 secured credit facility which may be used as a back-up line for the issuance of commercial paper. The credit agreement prohibits the payment of dividends, and imposes restrictions on loans, advances and additional indebtedness.

The Indenture for McGregor's 15-1/2% Subordinated Notes, due 1994, provides that subsequent to January 28, 1984, McGregor will not (a) declare or pay any dividend or make any distribution on its capital stock or to its stockholder (other than dividends or distributions payable in its capital stock and payment of a previously declared $10,000,000 dividend to Rapid ($5,500,000 has been paid) which is reflected as a liability of McGregor) or (b) purchase, redeem or otherwise acquire or retire for value any of its capital stock (other than repurchases of sinking fund preferred stock) or permit any Subsidiary (as defined) to do so, if at the time of such action an Event of Default (as defined) shall have occurred and be continuing or if upon giving effect thereto the aggregate amount expended for all such purposes shall exceed the sum of (i) 50% of Consolidated Net Income (as defined) subsequent to January 28, 1984, (ii) $5,000,000, (iii) the aggregate net proceeds received by McGregor from the issue or sale subsequent to January 28, 1984, of capital stock (other than sinking fund preferred stock), and (iv) the net carrying value of any indebtedness (including sinking fund preferred stock) converted subsequent to January 28, 1984, into capital stock. Notwithstanding the foregoing, no dividend or other distribution, purchase, or redemption may be paid or made unless the consolidated net worth of McGregor is at least $55,000,000 after giving effect to such transaction; provided, however, that the foregoing provisions will not prevent the payment of any dividend or the purchase, redemption or other acquisition of capital stock within 60 days after the date of declaration of such dividend or commitment to make such purchase, redemption or other acquisition if the payment complied with the foregoing provisions on the date of declaration or commitment, or the retirement of any shares of McGregor's capital stock by exchange for, or out of the proceeds of the substantially concurrent sale of, other shares of its capital stock.

See Note 8 to Financial Statements for additional information regarding the financing arrangements of Rapid, McCrory, Schenley and McGregor.

Item 6. Selected Financial Data.

	Year Ended January 31,				
	1986	1985	1984	1983	1982
	(Dollars in Millions)				
Net sales from continuing operations	$1,897.7	$1,751.1	$1,442.5	$1,597.2	$1,637.6
Income (loss) from continuing operations before extraordinary items .	38.5	(4.7)	12.9	(5.9)	(36.3)
Total assets	2,262.3	2,122.3	1,552.6	1,590.5	1,564.1
Long-term debt	964.9	1,318.0	720.8	779.4	881.0
Noncurrent capital lease obligations ...	85.8	66.6	45.3	51.6	65.3
Other:					
Return on sales	2.0%	-	.9%	-	-
Working capital at year-end	468.8	885.0	342.0	339.7	457.5
Current ratio	1.5	3.0	1.7	1.6	2.1
Ratio of earnings from continuing operations to fixed charges and preferred dividends combined	1.09	*	1.13	*	*
Number of employees at year-end	56,500	26,000	37,000	40,000	45,000

* Earnings from continuing operations were not sufficient to cover fixed charges and preferred dividends combined.

Supplemental Information on Changing Prices Required by the FASB

The United States in recent years has experienced varying rates of inflation. Inflation tends to distort the traditional measurement of income and capital. The Financial Accounting Standards Board (FASB) recognized this problem and issued Statement No. 33 - Financial Reporting and Changing Prices, as amended. This statement requires companies to demonstrate the effects of inflation and changing prices on their operations by supplementing their historical financial statements with data that demonstrate the effects of inflation.

Current cost data are determined based upon year-end prices for inventory and property of the type and age used in the company's businesses. Data for inventory and cost of goods sold are generally based upon current invoices, price lists and quotations from suppliers. Data for fixed assets are generally based upon indices which approximate the current cost of acquiring used equipment and facilities.

Rapid principally uses the Last-In, First-Out inventory method in valuing its inventories. Accordingly, since this method matches current costs with current revenues, Rapid has already made some allowance for the effects of general inflation and changing prices in its historical financial statements.

The following information was prepared in accordance with the FASB Statement to demonstrate the effects of changing prices.

Income from Continuing Operations and Changing Prices

	Year Ended January 31, 1986	
	As reported	Adjusted for specific price changes (current costs)
	(In Millions)	
Net sales and other revenues	$2,033	$2,033
Cost of goods sold	1,232	1,262
Selling, general and administrative expenses	536	536
Interest and debt expense	164	164
Depreciation and amortization	35	64
Minority interest	1	1
Provision for income taxes*	27	27
	1,995	2,054
Income (loss) from continuing operations before extraordinary charge ..	$ 38	$ (21)
Gain from decline in purchasing power of net amounts owed		$ 48
Increase in current cost of inventory, property, plant and equipment held during the year (based on specific price changes)		$ 81
Effect of increase in general price level		39
Increase in current cost of inventory, property, plant and equipment held during the year (based on specific price changes) net of changes in the general price level		$ 42

* In accordance with FASB Statement No. 33 the provision for income taxes is not adjusted for the effects of changing prices.

At January 31, 1986 and 1985, the current cost of inventory was approximately $1,005,000,000 and $568,000,000, respectively, and property, plant and equipment (net of accumulated depreciation and amortization) was approximately $707,000,000 and $652,000,000, respectively.

Five year comparison of selected supplementary financial data adjusted for changing prices in average fiscal 1985 dollars

	Year Ended January 31,				
	1986	1985	1984	1983	1982
	(In Millions, Except Price Index)				
Net sales from continuing operations	$1,898	$1,814	$1,557	$1,780	$1,930
Current cost information					
Loss from continuing operations before extraordinary items	$ (21)	$ (64)	$ (52)	$ (76)	$ (98)
Gain from decline in purchasing power of net amounts owed	$ 48	$ 38	$ 42	$ 44	$ 106
Net assets at year-end	$ 503	$ 522	$ 688	$ 660	$ 726
Other information					
Average consumer price index.	323.2	312.0	299.4	290.0	274.2

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

1986 Compared With 1985

Net sales and related costs and expenses of continuing operations increased for the year ended January 31, 1986, principally due to the increased sales of McCrory Stores and the inclusion of Faberge for the entire year.

Sales by McCrory Stores increased approximately $66,000,000 during the year ended January 31, 1986 as a result of increased sales in existing stores, principally due to a continuing store refurbishing program and increased store inventories. Increased gross profit resulting from increased sales was more than offset by greater store operating costs and expenses incurred in anticipation of a major acquisition.

Sales by Schenley of alcoholic beverages decreased approximately $15,000,000 during the year ended January 31, 1986, which paralleled declines in the alcoholic beverage industry in general. Schenley's operating profit increased principally as a result of increased investment income and a reduction of advertising expenditures.

Sales of apparel by McGregor increased by approximately $14,000,000 principally as a result of the inclusion of the sales in the current year of a subsidiary of McGregor from its date of acquisition, offset in part by decreased sales of men's clothing which paralleled the industry trend. Operating profit decreased principally due to the decline in profits from the men's clothing line, offset in part by improved earnings of other operations in the group and the profit from McGregor's newly acquired subsidiary from the date of its acquisition.

Faberge's increased sales for the year ended January 31, 1986 were principally due to its inclusion for the entire year, while the prior year included only 11 months of operations. Faberge's increased operating profits were principally due to improved margins, particularly in the fragrances and toiletries divisions, gain from termination of pension plans and reduced operating expenses.

Interest expense declined by approximately $17,000,000 during the year ended January 31, 1986 due principally to the purchase of Rapid's and McCrory's long-term debt with the proceeds from the sale of Lerner.

The increase in other net revenues of approximately $67,000,000 for the year ended January 31, 1986 is principally attributable to increased interest and dividends earned from marketable securities, gains on the sale of marketable securities and gains on the termination of pension plans.

The increase in profits from continuing operations before provision for income taxes of approximately $75,000,000 for the year ended January 31, 1986 is principally attributable to the increase in other net revenues and a reduction of interest expense.

1985 Compared With 1984

Net sales and related costs and expenses of continuing operations increased for the year ended January 31, 1985 primarily due to the inclusion of Faberge from the date of majority ownership (March 1984) and increased sales of McCrory Stores.

Sales by McCrory Stores increased approximately $100,000,000 during the year ended January 31, 1985 primarily as a result of improved economic conditions, a store refurbishing program and increased store inventories. Increased gross profits resulting from increased sales were offset in part by greater store operating costs.

Sales by Schenley of alcoholic beverages decreased approximately $22,000,000 during the year ended January 31, 1985, which paralleled the decline in the alcoholic beverage industry in general. Schenley's operating profit increased as a result of improved gross profit margins.

Sales of apparel by McGregor increased by approximately $10,000,000 during the year ended January 31, 1985 due primarily to increased sales of men's tailored clothing. The operating profit increased marginally because the additional gross profit was offset by increased costs and expenses.

Interest expense increased by approximately $63,500,000 in the year ended January 31, 1985 due primarily to the issuance of senior subordinated notes and debentures and debt issued in connection with the acquisition of Faberge.

The increase in other net revenues of approximately $18,700,000 in the year ended January 31, 1985 was principally attributable to increased interest and dividend income earned from marketable securities and increased royalty income from the initial inclusion of Faberge's operations. The year ended January 31, 1985, included a gain of $4.7 million on the sale of an aircraft.

The significant increase in interest expense, partially offset by improved operating results and increased other revenues, caused a reduction in profits from continuing operations before provision for income taxes of approximately $27,500,000 and a loss in the year ended January 31, 1985.

Liquidity and Capital Resources

During the three years ended January 31, 1986, Rapid and its subsidiaries funded debt repayments, capital additions, security purchases, dividends and amounts due from stockholders and affiliates principally through earnings from operations, depreciation and amortization of property and debt discount, sales of long-term debt, deferred income taxes and sales of assets. Seasonal working capital requirements have generally been provided by borrowings under bank credit agreements, bankers acceptances and the sale of commercial paper.

Rapid anticipates that repayments of long-term debt and expenditures for capital additions will be provided from general corporate funds or other sources, which may include proceeds from borrowings, sales of assets or refinancings.

Restrictions on the net assets of Rapid's subsidiaries have not had and are not expected to have an impact on Rapid's ability to meet its cash obligations. See Note 8 to Financial Statements.

See Item 6 - "Selected Financial Data" for the effects of changing prices on Rapid's Financial Statements.

Item 8. Financial Statements and Supplementary Data.

See accompanying Index to Financial Statements and Schedules on page F-1.

Item 9. Disagreements on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The following table sets forth the principal occupations and certain related information for Rapid's directors and executive officers as of April 18, 1986:

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Meshulam Riklis (a)	62	Chairman of the Board, Chief Executive Officer and President of Rapid for more than five years; director of McCrory for more than five years; Chairman of the Board and President of McCrory from June 1981 and March 1982, respectively, to January 1985; prior thereto Vice Chairman of the Board of McCrory from May 1977 to June 1981; Chairman of the Board of Schenley from January 1982 to May 1983.	1955	1955
Mona R. Ackerman (a)	40	President of Rapid-American Foundation (charitable contributions) for more than five years; member of the Executive Committee of Rapid since 1981.	1976	-
Harold S. Divine	64	Vice Chairman of the Board of Rapid for more than five years; Executive Vice President of McCrory since January 1983; director of HRT since March 1984; prior thereto senior executive of McCrory for more than five years.	1976	1977
Arie Genger	40	Private investor; Civil Servant-Government of Israel from January 1982 to January 1983; prior thereto a senior executive of Rapid and certain of its subsidiaries for more than five years.	1978	-

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Charles L. Jarvie	49	Executive Vice President of Rapid since February 1985; President and Chief Executive Officer of Schenley since February 1984; President of Fidelity Distributors Co. from March 1983 to February 1984; President and Chief Operating Officer of Dr. Pepper Co. from 1980 to 1983.	1985	1985
Seymour Kleinman	67	Senior partner, law firm of Golenbock and Barell, and Lecturer in Finance and Secured Transactions, Columbia University Law School, for more than five years.	1979	-
Leonard C. Lane	67	Chairman of the Board of ILC Industries, Inc. ("ILC") (primarily a manufacturer of advanced electronic data converters) for more than five years; Vice Chairman of the Board of Rapid from February 1981 to March 1982; Executive Vice President of Rapid from April 1969 to February 1982.	1960	-
Abraham G. Levin	67	Senior partner, law firm of Rubin Baum Levin Constant & Friedman, general counsel to Rapid, for more than five years.	1981	-
Daniel J. Manella	60	Executive Vice President of Rapid since February 1981; Chairman of the Board and Chief Executive Officer of McGregor since May 1981; Chairman of the Board, President, and Chief Executive Officer of Faberge since March 1984.	1980	1981
Dan Palmon (b)	44	Associate Professor of Accounting, Rutgers University, for more than five years.	1979	-

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Stephen L. Pistner	54	Executive Vice President of Rapid since February 1985; Chairman of the Board, President and Chief Executive Officer of McCrory since February 1985; President and Chief Operating Officer of Montgomery Ward & Co. from March 1981 to January 1985; President and Chief Operating Officer of Dayton Hudson Corp. from December 1977 to February 1981.	1985	1985
Ira D. Riklis (a)	31	Private investor for more than 5 years; director of McGregor since August 1983, Faberge since March 1984, HRT since March 1984 and The Computer Factory Inc. since February 1984.	1981	-
Marcia Riklis (a)	35	Vice President of Rapid for more than five years; Vice Chairman of the Board of Schenley since May 1983; director of HRT since March 1984, McGregor since April 1985 and Faberge since July 1985.	1981	1980
Leo D. Stone (b)	71	Financial Consultant; Lecturer in Finance, University of South Florida, from September 1974 to June 1981; director of McGregor since August 1983 and Faberge since March 1984; Chairman of the Board of Central Reserve Life Corporation for more than five years.	1979	-
Peter Thorner	42	Executive Vice President and Chief Financial Officer of Rapid and McCrory since August 1985; Senior Vice President and Chief Financial Officer of Ogden Corporation from November 1982 to August 1985; Partner of Deloitte Haskins & Sells from June 1978 to October 1982.	1985	1985

Name	Age	Principal occupation and related information	Served as director since	Served as officer since
Helen H. Updike	45	Associate Dean, Hofstra College of Liberal Arts and Science since February 1984; Chairperson, Department of Economics and Geography, Hofstra University from September 1981 to January 1984.	1979	-
Stuart H. Aarons	75	Secretary of Rapid for more than five years.	-	1972
Paul Weiner	45	Vice President and Treasurer of Rapid and McCrory since June 1985; Tax Director of Rapid and McCrory for more than five years.	-	1985
Michael J. Magenheim	44	Controller and Assistant Treasurer of Rapid for more than five years.	-	1972

(a) Member of the Executive Committee.
(b) Member of the Audit Committee.

There are no family relationships among any of the directors or executive officers of Rapid, except that Mona R. Ackerman, Marcia Riklis, and Ira D. Riklis are Meshulam Riklis' children.

The term of office of each director expires at the next annual meeting of Rapid's stockholder and when such director's successor is elected and has duly qualified. There are no arrangements or understandings between any of the directors of Rapid and any other person pursuant to which such person was selected as a director of Rapid. Seymour Kleinman, Dan Palmon and Helen H. Updike each receive $60,000 per annum for serving as directors and Leo D. Stone receives $45,000 per annum. Mr. Stone also receives $15,000 per annum for serving as a director of McGregor. Mona R. Ackerman, Marcia Riklis and Ira D. Riklis each receive $300,000 per annum for serving as directors and as members of the Executive Committee of the Board of Directors. None of the other directors of Rapid receives any compensation for serving as a director. Each of the executive officers of Rapid holds office at the pleasure of the Board of Directors. There are no arrangements or understandings between any of the executive officers of Rapid and any other person pursuant to which such person was selected as an executive officer of Rapid.

During the past five years, neither Rapid nor any of its officers or directors has been convicted in any criminal proceeding (excluding traffic violations or similar misdemeanors) or was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction whereby such party was or is subject to a judgment, decree or final order enjoining further violations of, or prohibiting activities subject to, Federal or state securities laws or Federal commodities laws or finding any violation of such laws.

Item 11. Executive Compensation.

The following table sets forth for the fiscal year ended January 31, 1986, the cash compensation of the five most highly compensated executive officers of Rapid and its subsidiaries, and the cash compensation of such executive officers and all other executive officers of Rapid as a group:

Name of individual or number in group	Capacities in which served	Cash compensation (1)
Meshulam Riklis	Chairman of the Board, President, and Chief Executive Officer of Rapid.	$3,067,413 (2)
Stephen L. Pistner	Chairman of the Board, President, and Chief Executive Officer of McCrory.	2,754,311
Harold S. Divine	Vice Chairman of the Board of Rapid and Executive Vice President of McCrory.	1,517,413 (3)
Marcia Riklis	Vice President, Director and Member of the Executive Committee of Rapid.	692,413
J. Philip Lux	President and Chief Executive Officer of McCrory Stores Division.	573,994
All executive officers as a group (8 in number)		9,857,042

(1) All of the individuals named in the table and certain other executive officers are covered by a medical insurance plan which covers certain executives. Under this plan, premiums are paid to an insurance company and the insurance company pays benefits, in accordance with the terms of the policy, directly to the executives, based upon claims submitted. The amount of the premium paid to the insurance company for each of the named individuals and the group is included in the table. Does not include interest differentials with regard to loans made at less than the current prime rate (see Item 13 - "Certain Relationships and Related Transactions").

(2) See "Employment Agreements - Meshulam Riklis" for a description of the payment of Mr. Riklis' compensation.

(3) Includes a nonrecurring bonus of $1,000,000.

Seven of the eight executive officers participate in retirement plans sponsored by subsidiaries of Rapid. Messrs. Riklis, Pistner and Divine, Marcia Riklis and one other participate in a McCrory corporate plan. Mr. Lux participated in a McCrory Stores plan, which was terminated in October 1985. One executive officer participates in a Schenley savings plan.

The McCrory corporate plan is a noncontributory defined benefit pension plan which covers employees of McCrory's home office. The plan is a "career-average" salary plan in which the annual benefit is determined by a summation of a certain percentage of compensation for each year of credited service. This plan provides for benefits equal to 1% of 1975-1979 average compensation not in excess of $15,000 plus 1.5% of such average compensation in excess of $15,000 for each year of participation up to December 31, 1979 plus 1% of compensation up to the Social Security Wage Base and 1.5% of compensation in excess of the Social Security Wage Base for each year of participation subsequent to 1979. In general, the compensation covered by this plan is total earnings as reported on Form W-2 for each year, excluding any special bonus. The maximum annual benefit currently provided under this plan is $90,000. The estimated annual benefits payable at retirement at normal retirement age as a straight life annuity to Messrs. Riklis, Pistner and Divine and Marcia Riklis are $136,425, $90,000, $68,387 and $90,000, respectively. As a result of the Tax Equity and Fiscal Responsibility Act of 1982, normal retirement benefits are subject to a maximum of the greater of $90,000 or the individual's accrued benefit at December 31, 1982. Since Mr. Riklis had an accrued benefit of $136,425 as of December 31, 1982, he retains the right to receive such benefit.

The McCrory Stores plan was substantially similar to the McCrory corporate plan described above, except that the maximum annual benefit was $50,000. Upon termination of the plan, Mr. Lux had an accrued annual benefit of $50,000, payable at retirement age as a straight life annuity.

The Schenley Employees' Savings and Investment Plan is a contributory defined contribution pension plan which covers salaried employees of Schenley. This plan permits eligible employees to contribute up to 16% of their compensation each year. This plan is qualified under Section 401(k) of the Internal Revenue Code which permits the deferral of Federal income taxes on amounts of salary reductions. Schenley will match two-thirds of the first 3% of employee contributions and one-half of the next 3% of employee contributions. All contributions are immediately vested when made. Contributions are invested in separate fixed income or equity funds as directed by each participant. Withdrawals are permitted upon retirement, death, disability, separation from service or if certain other conditions are met as provided in this plan and in Section 401(k) of the Internal Revenue Code. During the year ended January 31, 1986, Schenley contributed $18,542 to this plan for an executive officer.

The following table sets forth at January 31, 1986, the maximum estimated retirement benefits (including contractual obligations) payable to the persons and group specified in the table above:

Name of individual or number in group	Estimated annual retirement benefits: Pension plans	Employment contracts	Total
Meshulam Riklis	$136,425		$136,425
Harold S. Divine	68,387	$ 31,613	100,000
Stephen L. Pistner	90,000	-	90,000
Marcia Riklis	90,000	-	90,000
J. Philip Lux	50,000	-	50,000
All executive officers as a group (7 in number)	511,715	104,710	616,425

In order to facilitate the performance of their business duties, Rapid provides certain of its officers and directors with the use of corporate owned or leased automobiles and aircraft, hotel accommodations, and certain club memberships.

Employment Agreements

Meshulam Riklis

Effective February 1, 1985, Rapid entered into a five-year consulting agreement with World Wide Management Partnership L.P. ("World Wide Management"), a limited partnership of which Mr. Riklis is the general partner and World Wide Financial Partnership L.P. ("World Wide Financial") is the limited partner (see Item 13 - "Certain Relationships and Related Transactions," paragraph 1), pursuant to which World Wide Management furnishes to Rapid and its subsidiaries the management services of Mr. Riklis for $2,900,000 per year. Each year Rapid will make an allocation among itself and its various subsidiaries as to the amount of such compensation to be charged to each such entity.

Effective February 1, 1985, Rapid entered into a five-year employment agreement with Mr. Riklis which provides for an annual salary of $100,000. The contract provides for deferred compensation to be earned at the rate of not less than $50,000 per year, payable following termination of Mr. Riklis' employment. The contract also provides for the payment of a retirement allowance for life following the termination of Mr. Riklis' employment at the rate of $100,000 per year, and upon Mr. Riklis' death, payments are to continue to his widow at the rate of $50,000 per year for her life; any pension plan benefits are deducted, and such payments are to be subject to other limits and restrictions on competition with Rapid, and are reduced by the receipt of disability payments. As a condition to such retirement payments, Mr. Riklis has to be available for advisory services to the extent permitted by his health for a period of up to 12 business days a year. Mr. Riklis and his wife forfeit their retirement benefits if, within one year

after termination of employment, Mr. Riklis engages directly or indirectly in any activity competitive with the business of Rapid or any of its subsidiaries. In the event Mr. Riklis becomes incapacitated during employment, and such incapacity continues until termination of his employment, Mr. Riklis is to receive disability benefits at the rate of $100,000 per year for life, less any amounts earned from other employment. In the event of Mr. Riklis' death, his widow or his surviving children or his estate is to receive death benefits of $500,000, payable in 120 monthly instalments. The foregoing contracts supersede all of Mr. Riklis' previous employment arrangements, except for a contract with McCrory which provides that under certain circumstances Mr. Riklis would receive a retirement allowance of $15,000 per year.

Stephen L. Pistner

Mr. Pistner, an Executive Vice President and director of Rapid and Chairman, President and Chief Executive Officer of McCrory, is employed under a contract with McCrory effective February 1, 1985 through January 31, 1990. The contract provides for an annual salary of $2,500,000, together with a special residence allowance of $4,000 per month. In addition, the contract provides that McCrory shall maintain an insurance policy on the life of Mr. Pistner payable to his estate or designated beneficiaries in the face amount of $5,000,000 during the term of the contract, or if terminated prior to expiration by reason of Mr. Pistner's disability, until December 31, 1989. In the event Mr. Pistner becomes permanently disabled or disabled for a period of more than six consecutive months or for an aggregate of more than nine months during any eighteen-month period his contract may be terminated, in which event the contract provides for disability payments of $50,000 per month for a period of 60 months, or in the event of his death during such period, until the month in which he dies. In the event Mr. Pistner's contract is terminated by McCrory other than by reason of his discharge for serious misconduct, his failure to perform in any material respect his material obligations under the contract or in the event of his disability or death, McCrory shall be liable to Mr. Pistner for the discounted value of the full amount of his salary for the balance of the term of the contract. In the event Mr. Pistner elects to cease his employment at any time prior to the expiration of the contract, Mr. Pistner has agreed that he will not compete, directly or indirectly, for a period of one year, with McCrory in any business conducted by McCrory in any geographical area in which such business is conducted. Rapid has agreed to be jointly and severally liable with McCrory for the payment of all sums and the performance of all obligations on the part of McCrory under the contract.

Harold S. Divine

Mr. Divine, Vice Chairman of the Board of Rapid and an Executive Vice President of McCrory, is employed as a senior executive under an employment contract with McCrory effective December 15, 1983 through January 31, 1989. The contract supersedes all prior contracts with McCrory and its affiliated companies. The contract provides for a base salary of not less than $500,000 a year. During the period of Mr. Divine's employment under the contract,

McCrory will maintain insurance on his life in an amount not less than 125% of the annual rate of Mr. Divine's base salary. If Mr. Divine becomes incapacitated for a period of at least 11 consecutive months and his employment is terminated or if his employment ends on January 31, 1989 because of the expiration of the contract he will receive $8,333.33 a month until his death, less disability payments under any disability benefit plans. If Mr. Divine dies and is survived by his wife, she will receive monthly retirement benefits of $4,166.66 a month beginning when Mr. Divine dies until her death less any pension plan benefits. The contract provides for a severance bonus of $7,000,000 payable to Mr. Divine or to the person designated by him in writing during his lifetime or to his estate failing such designation within 60 days after the earliest to occur of the termination of the contract by (i) its expiration, (ii) his death or (iii) his disability. Mr. Divine forfeits his disability benefits and severance bonus and his wife forfeits her monthly retirement benefits if within two years after termination of his employment Mr. Divine engages directly or indirectly in any activity competitive with McCrory or any of its affiliated companies in which he was involved while employed or if Mr. Divine is discharged for serious misconduct.

J. Philip Lux

Mr. Lux, President and Chief Executive Officer of McCrory Stores, is employed as a senior executive officer under a contract with McCrory, effective February 1, 1982 through January 31, 1987, as amended as of February 1, 1985. The contract provides for an annual base salary of not less than $135,000 for the first year, $140,000 for the second year, $145,000 for the third year, and $150,000 for the last two years, together with an annual bonus through January 31, 1987 equal to a certain percentage of the McCrory Stores' aggregate executive bonus fund. The bonus is prorated if Mr. Lux's employment is terminated by reason of his death or disability. The employment of Mr. Lux may be terminated after six consecutive months of disability on 10 days' notice. In the event Mr. Lux's employment is terminated because of his disability, he is to receive monthly disability benefits equal to one-third of his monthly base salary when his employment terminates less any monthly pension or disability payments. McCrory may, in its discretion, terminate Mr. Lux's bonus payments or disability benefits if, during the term of his employment, he engages directly or indirectly in any activity competitive with McCrory or any of its affiliated companies, or, within two years after termination of his employment, he employs certain former employees of McCrory or any of its affiliated companies, or if he is discharged for serious misconduct. If Mr. Lux's employment terminates on February 1, 1987 and is not extended, Rapid has agreed to enter into a consulting agreement with him through January 31, 1990, for an annual fee of $200,000. Upon the earlier of January 31, 1990 or Mr. Lux's death, Mr. Lux or his estate is to receive $700,000. See Item 13 - "Certain Relationships and Related Transactions," paragraph 30.

Charles L. Jarvie

Mr. Jarvie, an Executive Vice President and director of Rapid, is employed by Schenley as its President and Chief Executive Officer under a

contract effective February 1, 1984 through January 31, 1989, with two one-year options exercisable by him. The contract provides for an annual salary of $500,000 and a bonus of $5,000,000 payable on January 31, 1989, if Mr. Jarvie is then in Schenley's employ or if his employment has been terminated prior thereto for any reason other than his disability, death, or discharge for serious misconduct. If Mr. Jarvie's employment is terminated prior to January 31, 1989 because of his disability or death such bonus would be proportionately reduced. The contract also provides for a performance bonus of $5,000,000 payable to Mr. Jarvie based on Schenley's operating profits during the period of his employment. If Mr. Jarvie dies during the term of the contract, his executors or administrators will be paid his monthly base salary for the month in which he died and for the month thereafter, together with all other payments provided in the contract. If Mr. Jarvie becomes incapacitated during the term of the contract for a period of at least six consecutive calendar months his employment may be terminated. Upon termination of Mr. Jarvie's employment, he will receive, after he becomes 65 years old, a monthly retirement benefit of $4,166.66 if his employment terminates on or after January 31, 1989, or $8,333.33 if on or after January 31, 1994, or $12,500 if on or after January 31, 1999, in each case less payments made under any pension plans. If Mr. Jarvie's wife survives him, she will receive one-half of the retirement benefits. The contract also provides that Mr. Jarvie and his wife shall continue to participate in Schenley's medical plan after the termination of his employment other than by voluntary termination or discharge for cause, until their death. Mr. Jarvie has agreed that he will not at any time while in Schenley's employ and for five years thereafter compete directly or indirectly with any of the businesses engaged in by Schenley during his employment. See Item 13 - "Certain Relationships and Related Transactions," paragraph 28.

Daniel J. Manella

Mr. Manella, an Executive Vice President and director of Rapid and a Senior Executive of McCrory, is employed under an employment contract with McCrory effective December 15, 1983 through January 31, 1989. The contract supersedes all prior contracts with McCrory and its affiliated companies except for his employment contract with McGregor. The contract provides for a base salary of not less than $500,000 a year and an aggregate bonus of $500,000, which has been paid. During the period of Mr. Manella's employment under the contract, McCrory will maintain insurance on his life in an amount not less than 125% of the annual rate of Mr. Manella's base salary. If Mr. Manella becomes incapacitated for a period of at least 11 consecutive months, and his employment is terminated, or if his employment ends on January 31, 1989 because of the expiration of the contract he will receive a retirement benefit of $8,333.33 a month until his death, less disability payments under any disability benefit plans. If Mr. Manella dies and is survived by his wife, she will receive monthly retirement benefits of $4,166.66 a month beginning when Mr. Manella dies until her death, less any pension plan benefits. The contract provides for a severance bonus of $7,000,000 payable to Mr. Manella or to the person designated by him in writing during his lifetime or to his estate failing such designation within 60 days after the earliest to occur of the termination of the contract by (i) its expiration, (ii) his death or

(iii) his disability. Mr. Manella forfeits any disability benefits and severance bonus, and his wife forfeits her monthly retirement benefits, if within two years after termination of his employment Mr. Manella engages directly or indirectly in any activity competitive with McCrory or any of its affiliated companies in which he was involved while employed or if Mr. Manella is discharged for serious misconduct. Deferred compensation of $100,000 earned by Mr. Manella under a prior employment agreement with Rapid will be paid to Mr. Manella, and after his death, to the person designated by him in writing during his lifetime or, failing such designation, to his estate, within 30 days after written request therefor. All of Mr. Manella's benefits under his contract with McCrory are reduced by any benefits payable to Mr. Manella under his contract with McGregor, which provides for, among other things, an annual salary of not less than $200,000.

Leonard C. Lane

Mr. Lane, a director of Rapid, was employed by Rapid as a senior executive officer under an employment contract. In accordance with a severance agreement, dated February 3, 1982, the contract and Mr. Lane's employment by Rapid were terminated on March 31, 1982. Pursuant to the severance agreement (i) Mr. Lane continues to participate in Rapid's medical plan until the earlier of March 31, 1992 or his death, (ii) Mr. Lane receives monthly retirement benefits at the rate of $100,000 per year for life and upon his death, the monthly retirement benefits will continue to his present wife, if she survives him and is married to him at the time of his death, during her life at the rate of $50,000 per year, (iii) if Mr. Lane dies prior to March 31, 1992 and his wife does not survive him the monthly retirement benefits at the rate of $50,000 per year shall be paid to Mr. Lane's estate until March 31, 1992, and (iv) the $336,250 of deferred compensation under his employment contract is being paid to Mr. Lane in 60 equal monthly instalments which commenced April 30, 1982. See Item 13 - "Certain Relationships and Related Transactions," paragraph 16.

Arie Genger

Mr. Genger, a director of Rapid, was employed by McCrory as a senior executive officer under an employment contract. In accordance with a severance agreement, dated December 1, 1981, the contract and Mr. Genger's employment by McCrory were terminated on January 31, 1982. Pursuant to the severance agreement (i) McCrory will keep $2,000,000 of life insurance in effect through January 1987, at which time Mr. Genger or his designee can purchase such policy by delivering to McCrory a promissory note in the amount of approximately $81,000 payable January 10, 1989, and designating McCrory as beneficiary of the policy to the extent of approximately $92,000, (ii) Mr. Genger will continue to participate in McCrory's medical plan for medical services rendered in the United States until the earlier of January 31, 1997 or his death, (iii) Mr. Genger is receiving monthly retirement benefits at the rate of $45,000 per year for life and upon his death the monthly retirement benefits will continue to his widow, during her life at the rate of $22,500

per year, and (iv) if Mr. Genger becomes physically or mentally disabled for a period of at least three consecutive months during the period through January 31, 1987, he shall be entitled to receive monthly disability payments for his life or until the disability or incapacity ends of $50,000 per year adjusted for cost of living increases and reduced by any payments under McCrory's disability plan. See Item 13 - "Certain Relationships and Related Transactions," paragraph 19.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth certain information with respect to persons known by management to own beneficially more than 5% of any class of voting securities of Rapid as of April 18, 1986:

Title of Class	Name and Address of Beneficial Owner	Shares Beneficially Owned	Percent of Class
Common Stock	Rapid-American Holding Corporation * 888 Seventh Avenue New York, NY 10106	1,461,364	100%

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* In excess of 99% of the voting power of Holding is held by World Wide, a wholly-owned subsidiary of KGA. Meshulam Riklis owns 100% of the outstanding capital stock of KGA.

Except as set forth herein, the directors and officers of Rapid do not own any equity securities of Rapid or any of its subsidiaries. During February 1981, Holding granted an option to purchase up to 97,424 shares of Rapid Common Stock (approximately 6.7% of the class) to a partnership, of which Abraham G. Levin is the managing partner, composed of certain partners (and members of their families) of the law firm of Rubin Baum Levin Constant & Friedman, general counsel to Rapid. The option is exercisable for a period of 30 years from the date of grant (subject to earlier termination upon a disposition by Holding of its shares of Rapid Common Stock) at an exercise price of $30.79 per share. In addition, during October 1983, Holding sold shares of its newly created class of exchangeable preferred stock, exchangeable at any time for an aggregate of approximately 6.7% of the outstanding shares of Rapid Common Stock, to two privately-held corporations, one of which is controlled by Harold S. Divine.

Rapid was advised by Mr. Riklis that during 1981 he entered into an agreement with a bank which restructured and restated his outstanding indebtedness to such bank. The indebtedness was payable on December 31, 1985, with the portion representing principal, bearing interest at a fixed rate which was less than the then current prime rate, and with the portion representing accrued interest not bearing additional interest. If there was

an event of default under the agreement, the entire indebtedness would bear interest at the bank's prime rate. The bank was granted a security interest in all of the shares of Rapid Common Stock owned by Holding, in the shares of senior voting preferred stock of Holding, and in certain other collateral. In the absence of a default of Mr. Riklis' obligations to the bank, Holding had the right to vote the shares of Rapid Common Stock and World Wide had the right to vote the shares of senior voting preferred stock of Holding. During May 1985, Mr. Riklis advised Rapid that all of his obligations to the bank were satisfied.

Item 13. Certain Relationships and Related Transactions.

1. On January 1, 1984, Rapid and its subsidiary, American Recreation Group, Inc. ("ARG"), sold to World Wide all of the assets of ARG which included the assets of Melville Knitwear Co. ("Melville") (women's sportwear) and Plastic Toy and Novelty Company ("PTN") (plastic toys). In consideration for the sale of the assets, World Wide paid $14,000,000 and assumed all of ARG's liabilities. In connection with the foregoing transaction, World Wide borrowed $13,000,000 (currently $7,000,000) from a bank secured by certain assets and guaranteed by Rapid. The obligations of World Wide under the bank loan have been assumed by World Wide Computer Partnership, L.P. ("World Wide Computer") (see paragraph 14). One of the liabilities assumed was an intercompany indebtedness of approximately $5,000,000 due to Rapid, which bore interest at 110% of prime, was payable on demand, and was secured by a junior lien on inventory. Upon consummation of the transaction, the assets and liabilities of ARG relating to its bicycle divisions (including approximately $2,500,000 of the aforesaid intercompany indebtedness to Rapid) were transferred to a limited partnership (the "ARG Partnership"), the general partner of which was World Wide and one of the limited partners of which was a corporation wholly-owned by Daniel J. Manella.

As of April 1985, World Wide reorganized its structure and transferred the balance of its operating assets (including Melville and PTN), subject to their respective liabilities, to several limited partnerships. In connection therewith, the ARG Partnership was restructured with Mr. Riklis' wholly-owned corporation as the general partner (1% interest) and Daniel J. Manella and Harold S. Divine (each having a 10% interest through wholly-owned corporations), World Wide Financial (69% interest) and one other as the limited partners. World Wide Financial is a limited partnership of which Mr. Riklis is the general partner (1% interest) and Riviera, Inc. (see paragraph 5) is the limited partner (99% interest). The ownership interests in the PTN and Melville limited partnerships are held in the same manner as in the ARG Partnership. During August 1985, the aggregate intercompany indebtedness of approximately $5,000,000 due to Rapid was distributed as a dividend to Holding.

During the year ended January 31, 1986, purchases by subsidiaries of Rapid of merchandise from World Wide and its affiliates, all of which were made in the ordinary course of business, aggregated approximately $665,000 (which constituted less than 1% of their combined net revenues from the sale of merchandise). In the opinion of management, the foregoing purchases were made at prices comparable to those that would have been arrived at as a result of arms-length negotiations.

2. As an inducement for Mr. Riklis to enter into a prior employment agreement with Rapid, Rapid loaned Mr. Riklis $12,500,000 in February 1983 (the "First Loan"), the obligation for which had been assumed by World Wide, and loaned World Wide $12,500,000 in May 1985 (the "Second Loan"). World Wide's obligation under the First Loan and the Second Loan have been assumed by World Wide Computer.

In accordance with an agreement, dated as of June 1, 1984, among Rapid, World Wide, and Meshulam Riklis, Rapid purchased from World Wide an aggregate of $66,450,000 principal amount of Rapid's Zero Debentures with maturities from 1993 to 2007. As consideration therefor, Rapid issued to World Wide its non-interest bearing promissory note due in 1992 (the "1992 Note") in the amount of $7,000,000 which was approximately the carrying value of such debentures. If certain payment obligations of World Wide to Rapid were satisfied, the 1992 Note could have been exchanged at the option of World Wide for Rapid's promissory note due in 2005 (the "2005 Note") bearing interest at 40% per annum. In 2005, if World Wide satisfied certain payment obligations to Rapid, it had the option to exchange the 2005 Note for another note of Rapid due in 2034 (the "2034 Note") bearing interest until 2007 at 40% per annum and 70% per annum thereafter. The 2034 Note could have been prepaid by Rapid at any time after issuance together with a prepayment penalty of $21,300,000. Rapid was amortizing the prepayment penalty over approximately 10 years. The 1992 Note had been included in Rapid's financial statements as an offset against the amount due from stockholders and affiliates. In addition, the agreement provided that the aggregate indebtedness of World Wide to Rapid in the principal amount of $28,330,000 ($12,500,000 First Loan, $12,500,000 Second Loan and a promissory note of $3,330,000 - see paragraph 12) would bear interest at the rate of 10% per annum payable annually. The First Loan, the Second Loan and the promissory note were due on March 1, 2007. The payment of interest on the First Loan and the promissory note for the period subsequent to February 1, 1984, had been deferred. If World Wide was not in default in the payment of interest it had the right to pay the $28,330,000 over a 10-year period by making semi-annual payments commencing March 1, 2007.

During August 1985, Rapid distributed the First Loan, the Second Loan, and the promissory note as a dividend to Holding. In addition, Holding assumed Rapid's obligation for the 1992 Note and all subsequent obligations related thereto.

3. During January 1984, Rapid made a non-interest bearing demand loan to World Wide in the amount of $15,000,000. During August 1985, Rapid distributed this loan as a dividend to Holding.

4. During February 1984, Rapid entered into an agreement with World Wide to acquire $18,000,000 principal amount of Rapid's 7% Subordinated Debentures, due 1994. Pursuant to such agreement, Rapid issued to World Wide its negotiable promissory note, due March 1, 1986, in the aggregate principal amount of $18,000,000, bearing interest at 110% of prime, which note has been paid. World Wide had agreed to deliver such debentures to Rapid by March 1, 1986, together with interest thereon from March 1, 1984. The market price of such debentures, as of February 1984, was approximately 60% of principal amount. During August 1985, Rapid distributed to Holding the receivable from World Wide as a dividend.

5. Mr. Riklis beneficially owned approximately 73% of the outstanding shares of capital stock of AITS, Inc. ("AITS") and was Co-Chairman of the Board of Directors and President of AITS. During August 1983, Hotel Riviera, Inc. ("Riviera"), a wholly-owned subsidiary of AITS and its only operating asset, filed a petition under Chapter 11 of the United States Bankruptcy Code. Riviera operated the Hotel Riviera in Las Vegas, Nevada. At the time of such filing, Mr. Riklis was Chairman of the Board of Directors and Chief Executive Officer of Riviera. During May 1984, AITS filed a petition seeking reorganization under Chapter 11 of the United States Bankruptcy Code. On February 13, 1985, the United States Bankruptcy Court, District of Nevada, entered an order confirming an amended Joint Plan of Reorganization, as modified (the "Plan"), of AITS and certain of its subsidiaries, including Riviera. Pursuant to the terms of the Plan, as of March 1, 1986, Riviera and AITS were consolidated into a new entity, Riviera, Inc. ("New Riviera"), the shares of existing capital stock of AITS were cancelled, no distribution in respect of such shares was made under the Plan or otherwise, and, in accordance with the Plan, all of the shares of common stock of New Riviera were issued to World Wide in exchange for debt. Mr. Riklis is Chairman of the Board of Directors of New Riviera, which now operates the Hotel Riviera in Las Vegas, Nevada.

During September 1982, Rapid acquired from a bank for $1,240,000 the obligations of AITS to the bank in the principal amount of $3,121,240, together with the accrued and unpaid interest thereon. In addition, during February 1983, Rapid acquired from a bank for $3,550,000 the obligations of AITS and Riviera to the bank in the aggregate principal amount of $8,750,000, together with the accrued and unpaid interest thereon. The foregoing AITS and Riviera debts are collectively referred to as the "Indebtedness." In addition, during the three fiscal years ended January 31, 1986, Rapid advanced to AITS an aggregate of $181,000, due on demand without interest. In the bankruptcy proceeding Rapid's claim was limited to the $4,790,000 it paid for the Indebtedness, plus interest thereon, and the amount of AITS' advances from Rapid. Pursuant to the Plan, Rapid received for its claim shares of New Riviera's preferred stock which has no dividend and is redeemable out of New Riviera's cash flow, as defined.

6. During the year ended January 31, 1983, Holding borrowed from Rapid an aggregate of $5,000,000, evidenced by promissory notes payable in 1987, together with accrued interest computed at the rate of 15% per year compounded semi-annually. Rapid was advised that all of the proceeds of such loans were in turn advanced to Riviera. Pursuant to the Plan (see paragraph 5), Holding received shares of New Riviera's preferred stock for its claim. During the fiscal year ended January 31, 1986, Rapid advanced an aggregate of approximately $2,400,000 to Holding, and approximately $2,900,000 is currently outstanding. The principal assets of Holding are its ownership of Rapid Common and Preferred Stocks, and notes receivable from World Wide.

7. During December 1981, a former director of Rapid borrowed $2,000,000 from Rapid. The loan was unsecured and was evidenced by his non-interest bearing demand note. Rapid was advised that the proceeds of the loan were in turn advanced to Riviera. Such former director and members of his family owned approximately 24% of the capital stock of AITS.

During February 1983, Schenley acquired from a bank for $2,175,000 the obligations of such former director to such bank in the amount of $2,175,000, together with the right to certain collateral consisting of obligations of AITS to such former director.

During March and May 1984, World Wide acquired from two financial institutions approximately $11,000,000 of the Riviera's indebtedness to such institutions, and acquired from such former director and members of his family all of the shares of AITS common stock owned by them. World Wide delivered to the financial institutions its interest bearing promissory notes in the aggregate principal amount of the indebtedness acquired, payable over a five-year period and returned to such former director his guarantees of the aforesaid indebtedness together with certain collateral which had been deposited by him in connection therewith. Mr. Riklis has guaranteed one of the World Wide notes (currently approximately $5,500,000) and Rapid has guaranteed Mr. Riklis' obligation thereunder. Holding has guaranteed the obligations under the other World Wide note (currently approximately $2,900,000). The obligations of World Wide under such notes have been assumed by World Wide Computer. During April 1984, Rapid and Schenley entered into agreements with such former director pursuant to which his aggregate indebtedness of $4,175,000 to Rapid and Schenley were deemed repaid by his assignment to Rapid and Schenley of certain obligations of AITS and Riviera to him in approximately the same aggregate principal amount. In addition, Rapid paid $300,000 to him for the assignment to Rapid of his claim against Riviera for an outstanding $300,000 loan. During December 1984, the $2,175,000 obligation due from AITS, acquired from such former director by Schenley, was sold by Rapid to World Wide for a five year non-interest bearing note in the same amount. During December 1985, the World Wide obligation of $2,175,000 to Rapid was distributed as a dividend to Holding. Pursuant to the Plan, Rapid and World Wide received shares of New Riviera's capital stock for the foregoing debts (see paragraph 5).

8. During May 1985, Rapid exchanged indebtedness of approximately $2,000,000 owed to it by an unaffiliated third party for an indebtedness of Riviera in the same aggregate principal amount. Pursuant to the Plan (see paragraph 5), Rapid received shares of New Riviera's preferred stock for the foregoing debt.

9. In connection with the termination on January 31, 1978 of a shopping center lease by McCrory in Springfield, Virginia, the lessor, a partnership in which Mr. Riklis is the principal partner, became indebted to McCrory for $309,000. Such obligation has been assumed by World Wide Computer. As of January 31, 1986, the indebtedness to McCrory was $128,000, payable in 16 remaining quarterly payments, bearing interest at the rate of 6% per annum.

10. As of January 31, 1983, Rapid purchased approximately 149 acres of undeveloped land (the "Property") in the Towns of Manchester and South Windsor, Connecticut from Mr. Riklis for a purchase price of $2,111,500 in excess of the existing mortgages on the Property of approximately $500,000. Rapid delivered to Mr. Riklis its promissory note in the principal amount of $2,111,500, payable on January 31, 1987, bearing interest at the rate of 6% per annum payable quarterly, and secured by a purchase money mortgage on the

Property which was assigned to KGA. Rapid has the right to require Mr. Riklis to repurchase the Property on January 30, 1987, for a purchase price of $2,111,500, plus all principal and interest payments on the underlying mortgages, and all real estate taxes paid by Rapid prior to such date. In connection with the foregoing transaction, Rapid guaranteed to a bank the difference between the interest due under a $2,111,500 note from Mr. Riklis to the bank (at 1/2% above prime) and 6% per annum.

During December 1985, Rapid granted an option to an unrelated party for $500,000 to acquire the Property for $4,000,000 through August 22, 1986. Pursuant to such option, the unrelated party has agreed to pay Rapid the amount of interest Rapid pays to Mr. Riklis under the $2,111,500 note from and after January 24, 1986.

11. In March 1984, View Top Corporation, a wholly-owned subsidiary of Rapid, acquired an aircraft for approximately $2,100,000. View Top leased the aircraft to a corporation wholly-owned by World Wide. The aircraft was used principally in connection with tours to the Hotel Riviera in Las Vegas, Nevada (see paragraph 5). The corporation agreed to pay rentals to View Top of approximately $400,000 per year and pay all expenses of operating the aircraft. During 1984, the corporation did not pay any rentals to View Top and it ceased operations in January 1985. The amount of unpaid rent is an obligation of World Wide, the payment of which has been deferred.

12. On February 3, 1982, Rapid sold its common stock interest in ILC (555,054 shares which represented approximately 74% of the outstanding shares) to Mr. Riklis (333,032 shares) and to Carl H. Lindner, Chairman of the Board of AFC (222,022 shares) (see "Introductory Note"). In payment for the shares of ILC common stock, Messrs. Riklis and Lindner delivered to Rapid their unsecured promissory notes in the aggregate principal amounts of $3,330,320 and $2,220,220, respectively, each payable on January 31, 1997, and bearing interest at the rate of 10% per year payable semi-annually. Mr. Riklis' obligation was assumed by KGA as of March 15, 1983. Under certain circumstances the maturity dates of the notes can be extended to August 1, 2006. Simultaneously Mr. Riklis sold, for $10 per share in cash, 330,000 shares of ILC common stock to Leonard C. Lane and 3,032 shares to ILC and Mr. Lindner sold, for $10 per share in cash, 101,750 shares of ILC common stock to Mr. Lane and 2,022 shares to ILC. During March 1982, as a result of a merger of ILC, pursuant to which the other stockholders of ILC received $10 per share in cash in exchange for their shares of ILC, 78-1/2% of the outstanding shares of ILC common stock became owned by Mr. Lane and the balance, 21-1/2% of the outstanding shares became owned by Mr. Lindner. Mr. Riklis has the right through February 1987 to buy from Mr. Lane 118,250 shares of ILC common stock (currently representing 21-1/2% of the outstanding shares). In connection with the merger, Rapid's intercompany receivable from ILC of approximately $7,450,000 was exchanged for approximately 74,500 shares of a newly created ILC redeemable preferred stock. During January 1985, Mr. Lindner sold his shares in ILC to Mr. Riklis for the assumption of his $2,220,220 note due to Rapid, together with unpaid interest thereon which has been deferred. In August 1985, Rapid distributed the notes to Holding as a dividend. Rapid has been advised that during March 1984, ILC loaned Mr. Riklis $1,000,000 evidenced by his unsecured, non-interest bearing demand note, which loan is still outstanding. See Note 5 to Financial Statements.

During the year ended January 31, 1986, Rapid and certain of its subsidiaries leased, in the ordinary course of business, transportation and manufacturing equipment from ILC and paid rentals to ILC of approximately $1,120,000. During January 1984, Rapid and its subsidiaries ceased entering into new lease transactions with ILC. In the opinion of management, the foregoing leases were made upon terms comparable to those that would have been arrived at as a result of arms-length negotiations.

13. During September 1983, a partnership, whose principal partner is Mr. Riklis, borrowed $4,000,000 (currently $2,000,000) from a bank secured by certain of the partnership's assets and used the proceeds to pay certain indebtedness to Rapid. Rapid guaranteed the obligation of such partnership to the bank. As of January 31, 1986, certain unsecured obligations of Mr. Riklis to a bank of approximately $2,200,000 were guaranteed by Rapid. In addition, during November 1985, Rapid advanced $7,500,000 to Meshulam Riklis on a demand non-interest bearing basis, which was repaid during December 1985.

14. As of June 1, 1984, Rapid sold the assets of its wholly-owned subsidiary, RAAM Information Services Corporation, to World Wide for book value. In connection with such sale, World Wide agreed to advise, furnish and monitor the computer and communication needs of certain of Rapid's subsidiaries for a fee equal to 110% of the estimated costs of the respective entities for such needs and to remit to the entity for which such services were rendered one-half of any profit resulting therefrom. Rapid furnishes office space to a limited number of World Wide's employees at no cost. During December 1984, the arrangement was modified to provide that Rapid and its subsidiaries will, during each of the next five years, pay to World Wide for such services an amount equal to the annualized amount paid for 1984, and that World Wide will not be required to remit any profits which may result nor seek any additional sums if losses result. As of April 1985, World Wide transferred its computer related assets, subject to their liabilities, to World Wide Computer, a limited partnership consisting of Mr. Riklis as the general partner and World Wide Financial as the limited partner (see paragraph 1). For the year ended January 31, 1986, Rapid and its subsidiaries paid World Wide approximately $17,000,000 in fees for such services and prepaid $10,000,000 for future services. During December 1985, World Wide Computer exchanged the $10,000,000 prepayment for McCrory's letter of credit in the amount of $12,500,000 expiring in October 1986.

15. During the year ended January 31, 1986, Rapid loaned World Wide $5,000,000 on a demand, non-interest bearing, unsecured basis, which was paid during December 31, 1985. During January 1986, Rapid loaned World Wide $5,100,000 on a demand unsecured basis with interest at 10% per annum. During February and March 1986, Rapid loaned World Wide an aggregate of $5,400,000 on a demand unsecured basis with interest at 10% per annum. During April 1986, World Wide paid the entire outstanding balance of $10,500,000.

16. On February 3, 1982, Leonard C. Lane borrowed $6,250,000 from Rapid. The loan is due on August 1, 2006 and bears interest at the rate of 10% per year payable semi-annually. Mr. Lane has secured his obligations under the loan by pledging with Rapid $6,250,000 principal amount of 10% Debentures. If there is a default in the payment of interest or principal by Mr. Lane, he has

the right to transfer 10% Debentures to Rapid and thereafter Rapid will have no recourse against him for the interest or principal on the loan. At any time after December 31, 1994, Rapid may in its discretion accept 10% Debentures in whole or in part at their principal amount, including any accrued interest thereon, for sinking fund purposes in satisfaction of the principal amount of the loan.

17. During October 1982 and February 1983, Daniel J. Manella borrowed $1,000,000 and $200,000, respectively, from Rapid. The loans are unsecured and are evidenced by Mr. Manella's non-interest bearing promissory notes due on January 31, 1989.

18. During September 1983, Harold S. Divine borrowed $1,000,000 from Rapid. The loan is unsecured and evidenced by Mr. Divine's non-interest bearing note due August 1, 2006. Rapid has been advised that the proceeds of the loan were used as partial payment for shares of exchangeable preferred stock of Holding. See Item 12 - "Security Ownership of Certain Beneficial Owners and Management."

19. During December 1981, Arie Genger borrowed $1,200,000 from McCrory. The loan is evidenced by Mr. Genger's promissory note due on May 15, 1994, bearing interest at the rate of 7% per year payable semi-annually.

20. Effective April 1, 1981, Whimsy, Incorporated ("Whimsy"), a subsidiary of McCrory, assigned leases on five of its retail stores, which had previously been closed, to Specialty Store Group, Inc. ("Specialty"), a corporation whose principal stockholder and Chief Executive Officer is Ira D. Riklis. McCrory was advised that by November 1982 Specialty closed all of the Whimsy locations. In connection with such transaction, Rapid loaned Specialty $500,000 which was payable in five annual instalments commencing March 31, 1982, bearing interest at the prime rate payable quarterly. During April 1985, the loan transaction was amended whereby Specialty agreed to pay the remaining balance of $350,000 in 49 monthly instalments, commencing on May 1, 1985, with interest at the prime rate. At January 31, 1986, the balance was $300,000. Specialty collateralized its obligation to Rapid with a promissory note from a third party in approximately the same principal amount.

21. As of January 31, 1983, a wholly-owned subsidiary of McCrory sold its lease and leasehold estate located on Central Avenue, Yonkers, New York, which consists of a shopping center, to a New York Limited Partnership (the "New York Partnership"). The limited partners, initially Mona R. Ackerman, Marcia Riklis, Ira D. Riklis, and AFC, had a 90% interest in the profits and losses of the New York Partnership. During January 1985, AFC transferred its limited partnership interest to the other limited partners (10-1/3% each) and to the general partner (5%). The sales price for the property was $6,100,000 which was evidenced by a promissory note payable in quarterly instalments over a 15 year period, with interest at 10% per annum, and collateralized by an assignment of the income, profits, and distributions of the New York Partnership. During August 1985, the partnership prepaid the promissory note.

As of January 31, 1983, a wholly-owned subsidiary of Rapid sold its lease and leasehold estate located in Richmond, Virginia, which consisted of a

manufacturing plant and warehouse, to a Virginia Limited Partnership (the "Virginia Partnership"). The limited partners, initially Mona R. Ackerman, Marcia Riklis, Ira D. Riklis, and AFC, had a 90% interest in the profits and losses of the Virginia Partnership. During January 1985, AFC transferred its limited partnership interest to the other limited partners (10-1/3% each) and to the general partner (5%). The sales price for the property was $2,600,000, of which $1,180,000 was evidenced by a promissory note payable in quarterly instalments over a 15 year period commencing in 1989, with interest at 10% per annum, payable quarterly and collateralized by an assignment of the income, profits, and distributions of the Virginia Partnership. During August 1985, the partnership prepaid the promissory note. The balance of the sales price was paid by the assumption of the payments due under a mortgage on the property, in the aggregate principal amount of $1,420,000, due in annual instalments from December 1983 through December 1987. The mortgage bears interest at 6-1/4% per annum, payable semi-annually. Following the sale, Rapid's subsidiary continued to be liable under the mortgage. At January 31, 1986, such contingent obligation was $558,000.

22. During August 1985, McCrory sold to a limited partnership, whose limited partners (having a 90% interest) are Mona R. Ackerman, Marcia Riklis, and Ira D. Riklis, land located in Cherry Hill, New Jersey for $1,150,000 in cash, which approximated carrying value. The sales price was based upon an independent appraisal. During July 1985, such limited partnership purchased from an unrelated party adjacent property containing a building leased to McCrory, which McCrory had previously vacated and partially subleased to others. During the period from July 1985 to January 31, 1986, McCrory paid $344,000 in rent to such partnership.

In the opinion of management, the terms of the transactions referred to in paragraphs 21 and 22 were comparable to those that would have been arrived at as a result of arms-length negotiations.

23. During the year ended January 31, 1986, Rapid and its subsidiaries paid Rubin Baum Levin Constant & Friedman, general counsel to Rapid, of which Abraham G. Levin is the senior partner, approximately $5,100,000 for services rendered.

24. Marcia Riklis' husband, through his wholly-owned entity, has a 42-1/2% interest in a partnership which during July 1983 acquired from Rapid a purchase option for the former S. Klein Department Stores Inc. property on 14th Street in New York City. The exercise price for the option was approximately $22,700,000, which approximated carrying value. In September 1985, the option was exercised and Rapid received cash and a $12,000,000 subordinated note due in June 1986, bearing interest at 1/2% below the prime rate (as defined) per annum.

25. During October 1985, Rapid advanced Mona R. Ackerman $3,600,000, bearing interest at 10% per annum, which was repaid in February 1986.

26. On August 9, 1985, a wholly-owned subsidiary of McCrory, SDH Realty Corporation ("SDH"), sold all of its land and buildings (the "Properties"), principally all of which were leased to HRT, to a partnership (the

"Partnership") comprised of Meshulam Riklis, Mona R. Ackerman, Marcia Riklis, Ira D. Riklis, a family partnership controlled by Harold S. Divine (the foregoing individuals and partnership have an aggregate interest of approximately 64%), and others. In consideration for the sale, the Partnership assumed SDH's non-recourse indebtedness to McCrory which was due on or before September 30, 1986, in the aggregate amount of $53,438,000, which was SDH's cost for the Properties plus interest at 10% per annum from the date acquired less any net rents received by McCrory. SDH also agreed to sell to the Partnership any land and buildings it acquired after August 9, 1985, at its cost plus interest at 10% per annum from the date of acquisition. During the period from August 9, 1985 to March 26, 1986, the Partnership purchased land and buildings from SDH at a cost of $20,625,000. The indebtedness was evidenced by promissory notes ("Notes") secured by a first mortgage (the "Mortgage") on the Properties. The Partnership deposited $10,000,000 of securities (Rapid's and McCrory's publicly trading debentures) in escrow (the "Escrowed Securities"), which would have been forfeited if the indebtedness was not paid by September 30, 1986. In addition, upon failure to pay the indebtedness McCrory could have foreclosed on the Mortgage and received back all of the Properties. In connection with the foregoing, the Partnership paid McCrory monthly fees (the "Fees") totalling $5,714,000 for the year ended January 31, 1986, for providing financial management services relating to the Properties. During January 1986, the Partnership arranged to borrow $75,000,000 from a bank on a demand basis (the "Loan"), evidenced by its promissory note which was also executed by McCrory as an accommodation to the Partnership. The proceeds of the Loan were delivered to McCrory in satisfaction of the Notes. The Partnership paid the Loan on March 26, 1986.

In connection with the sale of the Properties, HRT granted the Partnership an option, which was exercised during February 1986, to adjust from and after such date HRT's future rent obligations for the Properties to their fair market rentals. Upon exercise of the option, HRT had the right to accept the fair market rental or vacate the premises. HRT decided to vacate the premises. In consideration for the granting of the option, the Partnership agreed to pay $18,000,000 to HRT on or before June 30, 1986. The aggregate of $18,000,000 and the anticipated Fees represented the fair market value of such leases based upon the minimum valuations contained in appraisals prepared during 1983 by HRT's real estate consultants in connection with HRT's then pending bankruptcy proceeding. The obligation to make the payment of $18,000,000 is secured by the Escrowed Securities.

27. During February 1984, McCrory and its subsidiary, J. J. Newberry Co., sold their interest in 52 store properties to a general partnership (the "General Partnership"), in which a wholly-owned subsidiary of McCrory had a 66-2/3% interest. The aggregate sales price was approximately $6,200,000, represented by a three-year note (the "First Note"), bearing interest at 110% of the prime rate. In December 1984, an additional property was sold to the General Partnership for $1,257,000, represented by a promissory note (the "Second Note") payable on January 31, 1987, and bearing interest at 110% of the prime rate. All of the foregoing properties were leased back to McCrory at fair market levels. McCrory also leases two other stores which are owned by the General Partnership. During April 1985, in consideration for the prepayment of the First Note, McCrory sold its interest in the General

Partnership to a corporation controlled by Harold S. Divine (27% interest), and certain other entities. At January 31, 1986, the Second Note was still outstanding. During the year ended January 31, 1986, the General Partnership received rents from McCrory of $1,700,000.

As of March 1, 1986, McCrory sold to the General Partnership its interest in 37 store properties which had been received as a distribution upon termination of the McCrory Stores Pension Plan. The sales price was $6,464,700, evidenced by a promissory note in the amount of $5,282,258, payable on demand after August 31, 1986 and bearing interest at 110% of the prime rate per annum and the assumption of the outstanding mortgage indebtedness on such properties. Concurrently, McCrory entered into new leases for substantially all of these properties, which extended the lease terms and increased the rentals to fair market levels.

In the opinion of management, the foregoing transactions were upon terms comparable to those which could have been obtained from an unrelated third party.

28. As an inducement for Charles L. Jarvie to enter into an employment agreement, Schenley loaned to him $1,000,000 evidenced by his unsecured non-interest bearing demand promissory note. In addition, during the year ended January 31, 1986, Schenley loaned Mr. Jarvie $110,000, due in December 1986 and bearing interest at the prime rate.

29. During March 1986, Rapid loaned Stephen L. Pistner $1,500,000, due in 30 days and bearing interest at 1/2% under the prime rate per annum, which was paid in March 1986.

30. During May 1985, Rapid loaned J. Philip Lux $350,000, payable on the earlier of January 31, 1990 or the termination of his employment or consulting arrangement with McCrory, bearing interest at 12% per annum, payable annually. Mr. Lux has the right, at any time, to secure the loan with $500,000 principal amount of 10% Debentures. If Mr. Lux delivers the 10% Debentures and subsequently there is a default in the payment of interest or principal by Mr. Lux, he has the right to transfer the 10% Debentures to Rapid and thereafter Rapid will have no recourse against him for the interest or principal on the loan.

31. Leonard C. Lane is a limited partner (25% interest) in a partnership which since 1982 has owned a shopping center in which a store of T. G. & Y. Stores is located.

32. During the year ended January 31, 1986, McCrory acquired for $1,000,000 a limited partnership interest (approximately 10% interest) in an investment partnership in which Arie Genger has an indirect general partnership interest. In addition, during the year ended January 31, 1986, Meshulam Riklis acquired for $3,000,000 an interest in a partnership (33-1/3% interest) in which such investment partnership has an interest.

33. During July 1985, McCrory acquired from DBG (a partnership in which Harold S. Divine is a partner) a claim against Lerner for certain equipment

lease payments which are the subject of litigation. See Item 3 - "Legal Proceedings - Litigation Regarding the Sale of Lerner." In connection therewith, McCrory agreed to pay the principal instalments on a bank loan which was used by DBG to purchase the equipment. As of January 31, 1986, McCrory paid $651,000 to the bank and DBG continued to pay the interest on such loan.

For the maximum amounts of indebtedness owed to Rapid by Mr. Riklis and his wholly-owned entities during the years ended January 31, 1986 and 1985, reference is made to Note 11 to Financial Statements.

Unless otherwise indicated, in the opinion of management, the transactions described above with members of the Riklis family or entities controlled by them were not upon terms arrived at as a result of arms-length negotiations.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) See Index to Financial Statements and Schedules on Page F-1.

(b) A report on Form 8-K was filed on January 21, 1986 with respect to the acquisition of T. G. & Y. Stores, which was amended on March 21, 1986 and April 30, 1986. Such filing, as amended, included the audited consolidated financial statements of T. G. & Y. Stores as of December 29, 1984 and December 31, 1983 and for the two years then ended, unaudited consolidated financial data of T. G. & Y. Stores for the nine months ended September 28, 1985 and certain pro forma data.

(c) See Index to Exhibits on Page E-1.

(d) None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAPID-AMERICAN CORPORATION
(Registrant)

By /S/ PETER THORNER
Peter Thorner
Executive Vice President and
Chief Financial Officer

Dated: April 30, 1986

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

Principal Executive Officer:
Meshulam Riklis
Chairman of the Board

Principal Financial Officer:
Peter Thorner
Executive Vice President and
Chief Financial Officer

Directors:
Mona R. Ackerman
Harold S. Divine
Arie Genger
Charles L. Jarvie
Seymour Kleinman
Leonard C. Lane
Abraham G. Levin
Daniel J. Manella
Dan Palmon
Stephen L. Pistner
Ira D. Riklis
Marcia Riklis
Meshulam Riklis
Leo D. Stone
Peter Thorner
Helen H. Updike

By /S/ PETER THORNER
Peter Thorner
Attorney-in-fact

Dated: April 30, 1986

Original powers of attorney authorizing Peter Thorner and Stuart H. Aarons, and each of them, to sign this report and any amendments hereto on behalf of the directors and officers of the Registrant are being filed with the Securities and Exchange Commission with this report.

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

Schedules

Schedules Omitted

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required, or because the information required therein is set forth in the financial statements or the notes thereto.

Deloitte Haskins+Sells

One World Trade Center
New York, New York 10048-0601
(212) 669-5000
International Telex 66272

To the Board of Directors of
Rapid-American Corporation:

We have examined the consolidated financial statements and supplemental schedules of Rapid-American Corporation and its consolidated subsidiaries, listed in the foregoing index. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the consolidated financial statements of Lerner Stores Corporation (a consolidated subsidiary held for sale as of January 31, 1985), which statements reflect net assets of $158,855,000 at January 31, 1985 and income from operations sold of $19,226,000 and $34,923,000 for the years ended January 31, 1985 and 1984, respectively. Also, we did not examine the consolidated financial statements of HRT Industries, Inc., which statements reflect assets of $88,292,000 and $155,315,000 at January 31, 1986 and 1985, respectively, and income from continuing operations before extraordinary items of $2,335,000 for the year ended January 31, 1986 and loss from operations discontinued of $20,562,000 and $3,240,000 for the years ended January 31, 1986 and 1985, respectively. Such consolidated financial statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon the reports of the other auditors.

In our opinion dated April 24, 1985, our opinion on the January 31, 1985 and 1984 financial statements was qualified as being subject to the effects on the January 31, 1985 and 1984 financial statements of such adjustments, if any, as might have been required had the ultimate outcome of certain actions and claims been known. As discussed in Note 14 to the financial statements, during the year ended January 31, 1986 some of these actions and claims have been settled or dismissed, the number of individual actions reduced and certain controversies between the companies and other parties to litigation have been resolved. Accordingly, our present opinion on the January 31, 1985 and 1984 financial statements, as expressed herein, is different from that expressed in our previous opinion.

In our opinion, based upon our examinations and the reports of other auditors, the accompanying consolidated financial statements present fairly the financial position of the companies at January 31, 1986 and 1985 and the results of their operations and the changes in their financial position for each of the three years in the period ended January 31, 1986, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

Deloitte Haskins & Sells

April 28, 1986

Touche Ross & Co.
One Gateway Center
Newark, NJ 07102-5311
Telephone: 201 622-7100
Telex: 219297 TRUNK XUR

Touche Ross

OPINION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

March 13, 1985

Board of Directors
Lerner Stores Corporation
New York, New York

We have examined the consolidated balance sheet of Lerner Stores Corporation and subsidiaries as of January 31, 1985, and the related statements of income, stockholder's equity and changes in financial position for each of the two years in the period ended January 31, 1985 (none of which is presented separately herein). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Lerner Stores Corporation and subsidiaries as of January 31, 1985, and the consolidated results of their operations and the changes in their financial position for each of the two years in the period ended January 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

TOUCHE ROSS & CO.

Certified Public Accountants

Coopers
&Lybrand

The Stockholder of and the
Board of Directors of
HRT Industries, Inc.

We have examined the consolidated balance sheets of HRT Industries, Inc. and subsidiaries as of January 31, 1986, and February 1, 1985, and the related statements of operations, stockholder's equity, and changes in financial position for the years then ended and the financial statement Schedule VIII, none of which are presented separately in this Form 10-K. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of HRT Industries, Inc. and subsidiaries as of Janaury 31, 1986, and February 1, 1985, and the consolidated results of their operations and changes in their financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis. In addition, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly the information required to be included therein.

Coopers & Lybrand

Coopers & Lybrand

Los Angeles, California
April 18, 1986

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED OPERATIONS

	Year Ended January 31,		
	1986	1985*	1984
		(In Thousands)	
REVENUES:			
Net sales	$1,897,701	$1,751,088	$1,442,492
Other - net	135,015	68,051	49,320
	2,032,716	1,819,139	1,491,812
COSTS AND EXPENSES:			
Cost of goods sold	1,231,661	1,138,265	976,336
Selling, general and administrative expenses	535,713	477,048	357,455
Interest and debt expense	163,876	180,473	116,991
Depreciation and amortization	35,324	29,151	21,742
Minority interest	665	3,642	1,164
	1,967,239	1,828,579	1,473,688
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE PROVISION (BENEFIT) FOR INCOME TAXES AND EXTRAORDINARY ITEMS	65,477	(9,440)	18,124
PROVISION (BENEFIT) FOR INCOME TAXES	27,026	(4,761)	5,268
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEMS	38,451	(4,679)	12,856
OPERATIONS DISCONTINUED OR SOLD:			
Net gain on operations discontinued or sold - net of taxes	58,191	-	-
Income (loss) from operations discontinued or sold - net of taxes	(7,499)	14,563	40,628
INCOME BEFORE EXTRAORDINARY ITEMS	89,143	9,884	53,484
EXTRAORDINARY CHARGE - LOSS ON NOTE AND DEBENTURE PURCHASES - NET OF TAX	(4,003)	(18,240)	-
EXTRAORDINARY CREDIT - GAIN ON DEBENTURE EXCHANGES - NET OF TAX	-	-	2,960
NET INCOME (LOSS)	85,140	(8,356)	56,444
CONSOLIDATED PREFERRED DIVIDEND REQUIREMENTS	21,306	801	814
INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	$ 63,834	$ (9,157)	$ 55,630

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* Restated for operations discontinued.

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	January 31, 1986	January 31, 1985
	(In Thousands)	
CURRENT ASSETS:		
Cash	$ 20,722	$ 26,131
Temporary investments, at cost which approximates market	21,848	191,943
Marketable securities, at cost which approximates market	48,172	270,381
Trade receivables, less allowances ($6,021,000 and $7,278,000)	165,568	141,509
Inventories	887,747	434,514
Other receivables, prepaid expenses, etc.	180,167	56,602
Assets held for disposal or sale - net	39,565	208,133
Total current assets	1,363,789	1,329,213
OTHER INVESTMENTS	19,890	33,262
PROPERTY, PLANT AND EQUIPMENT - AT COST	535,623	499,651
Less accumulated depreciation and amortization	190,742	205,339
	344,881	294,312
Capital leases, less accumulated amortization	83,639	49,806
Property, plant and equipment - net	428,520	344,118
OTHER ASSETS:		
Excess of cost of investments over related equities, less accumulated amortization	273,958	263,005
Franchises, less accumulated amortization	44,692	45,091
Trademarks	2,802	2,638
Long-term receivables - Otasco Holding Corp.	26,319	24,549
Deferred charges, mortgages and sundry	102,287	80,405
Due from stockholder and affiliates ($24,810,000 and $56,521,000) - see contra	-	-
Total other assets	450,058	415,688
TOTAL	$2,262,257	$2,122,281

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDER'S EQUITY	January 31, 1986	January 31, 1985
	(In Thousands)	
CURRENT LIABILITIES:		
Accounts payable	$ 405,037	$ 134,693
Accrued expenses and sundry	208,672	182,121
Short-term debt	121,300	24,227
Reserves for store closings	89,275	2,877
Current maturities of long-term debt	57,958	76,721
Capital lease obligations	7,421	7,792
Accrued Federal and foreign income taxes	5,325	15,752
Total current liabilities	894,988	444,183
LONG-TERM DEBT, LESS CURRENT MATURITIES AND UNAMORTIZED DISCOUNT AND EXPENSE	964,885	1,318,013
OTHER NONCURRENT LIABILITIES:		
Deferred income taxes	95,213	120,440
Capital lease obligations	85,817	66,576
Reserves for store closings	57,086	7,169
Sundry	39,196	31,165
Total other noncurrent liabilities	277,312	225,350
MINORITY INTEREST IN SUBSIDIARIES	15,104	58,289
STOCKHOLDER'S EQUITY:		
Preferred stock, $.01 par value, authorized and outstanding 12,100 shares (liquidation preference $121,000,000)	1	1
Common stock, $.01 par value, authorized and issued 2,435,607 shares	24	24
Additional paid-in capital	169,524	167,670
Retained earnings	80,149	79,635
Treasury stock, at cost, 974,243 common shares	(110,000)	(110,000)
Foreign currency translation adjustment	(4,920)	(4,363)
Due from stockholder and affiliates - see contra	(24,810)	(56,521)
Total stockholder's equity	109,968	76,446
TOTAL	$2,262,257	$2,122,281

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF STOCKHOLDERS' EQUITY

(In Thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Foreign Currency Translation Adjustment	Due from Stockholders and Affiliates
Balance, February 1, 1983	-	$24	$ 57,906	$41,296			$(38,877)
Cumulative adjustment as of February 1, 1983 resulting from change in translation method						$(3,167)	
Net income				56,444			
Cash dividends declared on common stock ($.75 per share)				(1,827)			
Exercise of debenture purchase warrants			(131)				
Cash dividends paid by subsidiaries				(814)			
Increase in amount due from stockholder and affiliates							(13,498)
Foreign currency translation adjustment						(602)	
Other			(1)	10			
Balance, January 31, 1984	-	24	57,774	95,109		(3,769)	(52,375)
Net loss				(8,356)			
Cash dividends declared on common stock ($2.60 per share)				(6,324)			
Exercise of debenture purchase warrants			(103)				
Cash dividends paid by subsidiaries				(801)			
Issuance of 12,100 shares of preferred stock in exchange for 974,243 shares of common stock	$ 1		109,999		$(110,000)		
Increase in amount due from stockholder and affiliates							(4,146)
Foreign currency translation adjustment						(594)	
Other				7			
Balance, January 31, 1985	1	24	167,670	79,635	(110,000)	(4,363)	(56,521)
Net income				85,140			
Cash dividends declared on:							
Preferred stock ($1,696.00 per share)				(20,522)			
Common stock ($1.57 per share)				(2,295)			
Dividends of certain net indebtedness due to Rapid-American Corporation				(61,041)			56,059
Capital contribution			1,866				
Exercise of debenture purchase warrants			(12)				
Cash dividends paid by subsidiaries				(784)			
Increase in amount due from stockholder and affiliates							(24,348)
Foreign currency translation adjustment						(557)	
Other				16			
Balance, January 31, 1986	$ 1	$24	$169,524	$80,149	$(110,000)	$(4,920)	$(24,810)

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Year Ended January 31, 1986	1985	1984
	(In Thousands)		
FUNDS PROVIDED:			
Continuing operations:			
Income (loss) before extraordinary items	$ 38,451	$ (4,679)	$ 12,856
Items not currently requiring (providing) funds:			
Depreciation and amortization (including debt discount and intangibles)	60,859	59,622	31,504
Non-taxable gain on public sale by McGregor of its common stock	-	-	(7,912)
Minority interest	665	3,642	1,164
Deferred Federal and foreign income taxes	5,474	1,834	8,831
Gain on sales of property and equipment - net	(2,730)	(5,801)	(2,349)
Other - net	1,509	3,611	5,353
Funds provided by continuing operations	104,228	58,229	49,447
Operations discontinued or sold:			
Gain on operations discontinued or sold - net	52,683	-	-
Income (loss) from operations discontinued or sold - net	(2,705)	41,522	66,173
Extraordinary items:			
Loss on note and debenture purchases, 1985 and 1984; gain on debenture exchange, 1983	(4,003)	(18,240)	2,960
Deferred Federal income taxes	(109)	(3,245)	2,521
Decrease in long-term debt	(285,291)	(80,349)	(5,481)
Increase in long-term debt	132,717	734,860	9,273
Proceeds from disposals of property, plant and equipment	115,222	29,179	13,136
Decrease (increase) in deferred charges, mortgages and sundry	23,222	(27,584)	(12,149)
Increase in capital lease obligations - net	10,468	7,474	-
Working capital of BTK (1986) and Faberge (1985)	11,361	82,275	-
Proceeds from sale of other investments	5,930	-	2,377
Capital contribution	1,866	-	-
Assets held for disposal or sale - net - noncurrent	-	144,945	-
Issuance of preferred stock	-	110,000	-
Net assets sold - noncurrent	-	28,681	-
Minority interest in HRT	-	10,914	-
Net proceeds from public sale by McGregor of its common stock	-	-	37,048
Other - net	(2,519)	1,544	6,397
	163,070	1,120,205	171,702

See Notes to Financial Statements.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION
(Concluded)

	Year Ended January 31, 1986	1985	1984
		(In Thousands)	
FUNDS APPLIED:			
Decrease in long-term debt	$ 224,824	$ 110,263	$ 68,374
Additions to property, plant and equipment:			
Continuing operations	118,468	98,219	28,032
Operations discontinued or sold	1,035	39,633	29,520
Net assets of T. G. & Y. Stores - noncurrent	87,374	-	-
Purchase of McGregor common stock	32,171	1,790	-
Due from stockholders and affiliates	24,348	4,146	13,498
Cash dividends	22,817	6,324	1,827
Reclassification of noncurrent income taxes	18,232	-	-
Excess cost in McGregor	17,739	-	-
Acquire HRT minority interest	9,428	-	-
Decrease (increase) in deferred income taxes	6,885	(3,248)	(1,146)
Dividend of certain net indebtedness due to Rapid	4,982	-	-
Increase in other investments	3,472	11,401	14,600
Decrease (increase) in noncurrent reserves for store closings	2,191	(650)	3,187
Investment in BTK	1,924	-	-
Increase in long-term receivables - Otasco Holding Corp.	1,200	24,416	-
Decrease in capital lease obligations	868	-	6,270
Cash dividends paid by subsidiaries	784	801	814
Foreign currency translation adjustment	557	594	3,769
Exchange of common stock	-	110,000	-
Investment in Faberge		88,403	-
Excess cost in Faberge	-	75,049	-
Excess cost in Jody	-	9,279	-
Net assets of HRT - noncurrent	-	780	-
Loans to certain directors and officers - net	-	-	605
	579,299	577,200	169,350
INCREASE (DECREASE) IN WORKING CAPITAL	$(416,229)	$ 543,005	$ 2,352
INCREASE (DECREASE) IN WORKING CAPITAL BY COMPONENTS:			
Cash	$ (5,409)	$ (9,338)	$ (4,111)
Temporary investments	(170,095)	88,117	(112,342)
Marketable securities	(222,209)	230,143	36,863
Trade receivables, less allowances	24,059	(5,123)	(24,764)
Inventories	(69,398)	(5,617)	61,147
Other receivables, prepaid expenses, etc.	78,797	19,330	(6,065)
Assets held for disposal or sale - net	(168,568)	144,944	-
Net assets sold	-	(40,586)	-
Working capital of T. G. & Y. Stores	232,144	-	-
Working capital of Faberge	-	82,275	-
Working capital of HRT	-	28,558	-
Assets held for sale to stockholders and affiliates	-	-	(13,500)
Accounts payable	(26,960)	26,702	(19,370)
Accrued expenses and sundry and reserves for store closings	(24,329)	(5,346)	(5,561)
Short-term debt	(97,073)	7,795	17,279
Current maturities of long-term debt	18,820	(49,760)	65,882
Capital lease obligations	2,992	851	98
Accrued Federal and foreign income taxes	11,000	30,060	(15,131)
Due to stockholders and affiliates	-	-	21,927
INCREASE (DECREASE) IN WORKING CAPITAL	$(416,229)	$ 543,005	$ 2,352

See Notes to Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include (i) Rapid-American Corporation ("Rapid"); (ii) McCrory Corporation and subsidiaries ("McCrory"), including J. J. Newberry Co. and subsidiaries ("Newberry"), T. G. & Y. Stores Co. and subsidiaries ("T. G. & Y. Stores"), acquired in January 1986, and HRT Industries, Inc. ("HRT"), including its subsidiary, Jody-Tootique, Inc. ("Jody"), from date of acquisition of majority interest; (iii) Schenley Industries, Inc. and subsidiaries ("Schenley"); (iv) McGregor Corporation and subsidiaries ("McGregor"), including Faberge, Incorporated ("Faberge") from date of acquisition of majority interest; and (v) certain other subsidiaries whose assets and operations in the aggregate are not significant.

In February 1986, reflected in the financial statements as of January 31, 1986, management decided to discontinue the retailing operations of HRT. HRT's retailing operations, Lerner Stores Corporation and subsidiaries ("Lerner") and Otasco, Inc. and subsidiaries ("Otasco") have been discontinued or sold and are classified accordingly.

Minority interest in subsidiaries consisted of the following:

	January 31, 1986	January 31, 1985
	(In Thousands)	
Preferred and preference stocks	$15,104	$15,032
Common stock	-	3,947
Additional paid-in capital	-	48,339
Deficit	-	(8,911)
Foreign currency translation adjustment	-	(118)
Total	$15,104	$58,289

To facilitate comparisons with the current year, certain amounts in prior years have been reclassified.

Inventories

The last-in, first-out ("LIFO") method is principally used to value inventories. The LIFO inventory amount at January 31, 1986, 1985 and 1984 was less than the first-in, first-out ("FIFO") inventory amount by approximately $76,200,000, $83,500,000 and $100,300,000, respectively. As a result of reduced inventories and lower merchandise costs for the years ended January 31, 1986, 1985 and 1984, the difference between LIFO and FIFO was reduced by

$7,300,000, $5,200,000 and $4,700,000, respectively, excluding the $11,600,000 reduction attributable to the sale of Otasco in the year ended January 31, 1985. Accordingly, income from continuing operations benefited by approximately $3,900,000, $2,800,000 and $2,500,000 for the years ended January 31, 1986, 1985 and 1984, respectively. Jody's inventories are stated at the lower of cost (FIFO) or market value. The inventories of HRT's retailing operations for the year ended January 31, 1985 were stated at the lower of cost (FIFO) or market value, determined principally by the retail inventory method.

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold include Federal excise taxes, import duties and state liquor taxes of approximately $90,000,000, $98,100,000 and $105,100,000, respectively, for the years ended January 31, 1986, 1985 and 1984.

Property, Plant and Equipment

Depreciation is provided at rates designed to extinguish the cost of properties over their estimated service lives. The approximate annual rates of depreciation and amortization, which have been computed generally using the straight-line method, are as follows:

	Rates of Depreciation and Amortization
Buildings, etc.	2-1/2 to 14%
Furniture, fixtures and automobiles	5 to 40%
Machinery and equipment	4 to 33-1/3%
Property and equipment under capital leases	Term of lease
Leasehold improvements	Term of lease or estimated service life of improvement, whichever is less

Excess of Cost of Investments Over Related Equities and Franchises

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970, amounting to $103,630,000 and $103,845,000 at January 31, 1986 and 1985, respectively, has been recognized as being similar in nature to intangibles, which have not declined in value since acquisition. These excess costs have not been amortized or written down as, in the opinion of management, there has not been any permanent impairment in the value of the related investments (see Note 7). Franchises, which consist of Schenley contracts to import whiskies, liquors, and other distilled spirits, have continuing value and are not being amortized, except for the portion acquired subsequent to October 31, 1970.

The excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to $170,328,000 (after accumulated amortization of $38,748,000) at January 31, 1986 and $159,160,000 (after accumulated amortization of $33,483,000) at January 31, 1985 and the portion of franchises, amounting to $10,637,000 (after accumulated amortization of $5,308,000) at January 31, 1986 and $11,035,000 (after accumulated amortization of $4,910,000) at January 31, 1985, acquired subsequent to October 31, 1970 are being amortized using the straight-line method over forty years (see Note 7). These excess costs and franchises have not been otherwise written down as, in the opinion of management, there has not been any permanent impairment in the value of the related investments.

At January 31, 1985, the unamortized excess of cost of $49,277,000 attributable to Lerner was included in assets held for disposal or sale - net.

Foreign Currency Translation

Effective as of February 1, 1983, Rapid changed its method of translating financial statements of investments stated in foreign currencies to conform with Statement No. 52 of the Financial Accounting Standards Board. An equity adjustment of $3,167,000 was recorded as of February 1, 1983 for the cumulative effect of Statement No. 52 on prior years.

Pension Plans

The financial statements for the year ended January 31, 1986 reflect the adoption for the United States pension plans of Statements of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" ("SFAS No. 87") and No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" ("SFAS No. 88").

2. ACQUISITION OF T. G. & Y. STORES

During January 1986, a newly-created wholly-owned subsidiary of McCrory acquired all of the outstanding capital stock of T. G. & Y. Holdings, Inc. ("T. G. & Y. Holdings") from HMI Holdings, Inc. ("HMI Holdings"), pursuant to

the terms of a Stock Purchase Agreement, dated as of December 26, 1985, as amended. The principal asset of T. G. & Y. Holdings is the capital stock of T. G. & Y. Stores. The purchase price was approximately $360,000,000 (subject to adjustment based upon audited financial statements), which was paid in cash. Estimated adjustments reducing the purchase price by approximately $36,000,000 have been reflected in the accompanying balance sheet as of January 31, 1986 as a receivable from HMI Holdings. Additional reductions of the purchase price are in dispute. Funds used for the purchase were provided from internally generated funds.

The acquisition has been accounted for as a purchase as of January 31, 1986. The excess of the total acquisition cost over the fair value of net assets acquired amounting to $50,981,000 was attributed to store leases and will be amortized over the lives of the leases.

The fair value assigned to assets acquired and liabilities assumed, excluding cash of $3,069,000, was as follows:

	(In Millions)
Receivables	$ 40.6
Inventories	522.6
Property and equipment	162.1
Other assets	50.4
Accounts payable	(243.4)
Accrued expenses, etc.	(43.2)
Reserves for store closings	(101.7)
Capital lease obligations	(58.6)
Other liabilities	(9.3)
	$ 319.5

The following unaudited pro forma consolidated results of operations assumes that the purchase occurred at the beginning of the following years:

	Year Ended January 31, 1986	Year Ended January 31, 1985
	(In Millions)	
Net sales	$3,849.2	$3,789.0
Income (loss) from continuing operations	(4.6)	12.9

The pro forma results of operations are not indicative of the actual results of operations that would have occurred had the purchase been made at the beginning of the respective periods or of results that may occur in the future, in view of the substantial changes in the operations of T. G. & Y. Stores that McCrory is implementing.

3. OPERATIONS DISCONTINUED OR SOLD

McCrory entered into a joint venture with Schottenstein Stores Corporation ("Schottenstein") in which each party owned a 50% interest for the purpose of investing in HRT. During March 1984, the joint venture acquired 55% of the shares of HRT common stock for $18,000,000 and arranged for up to $35,000,000 of credit facilities for HRT. During January 1985, McCrory purchased Schottenstein's interest in the joint venture for $13,225,000 and guaranteed the $35,000,000 credit facility for HRT. During April 1985, McCrory acquired the minority interest in HRT for approximately $23,165,000 principal amount of McCrory's 14-1/2% subordinated notes, due May 31, 1988. The acquisition of HRT was accounted for as a purchase. The investment of $45,390,000 exceeded McCrory's equity in the fair value assigned to HRT's assets acquired and liabilities assumed by $9,279,000 which has been attributed to Jody.

During February 1986, management decided to discontinue the retailing operations of HRT. A provision of $21,433,000, less related deferred Federal income tax benefit of $9,858,000, was established for the estimated losses to be incurred in such discontinuance. Such estimated losses consist of the following:

	(In Millions)
Write-down of assets to net realizable value	$28.9
Estimated operating losses	5.0
Present value of future lease commitments and real estate taxes, net of estimated recoveries	3.5
Other related costs	2.0
	39.4
Less recovery from sale of lease interest	18.0
Total	$21.4

In October 1984, McCrory sold the capital stock of its wholly-owned subsidiary Otasco to an investor group principally comprised of employees, including members of senior management, of Otasco. The price was the approximate book value as of January 31, 1984, which was paid primarily by the delivery of a $21,000,000 note bearing interest at 15-3/4% per annum, of which $6,000,000 is due no later than October 22, 1989 and $15,000,000 is due in 1994 and secured by a pledge of all of the capital stock of Otasco. In connection with the transaction, Otasco granted a security interest to a lender in substantially all of its assets. In addition, McCrory will receive four payments of $3,000,000 each, on the seventh, eighth, ninth and tenth anniversaries of the closing, for a covenant not to compete. After a provision for income taxes of approximately $4,550,000, the transaction resulted in no gain or loss.

On April 2, 1985, McCrory sold the capital stock of its wholly-owned subsidiary Lerner to The Limited, Inc. for approximately $297,000,000 in cash. The gain from the sale was approximately $69,800,000 net of taxes of approximately $42,200,000. The net proceeds of the sale were used for the purchase of McCrory and Rapid notes and debentures.

The results of operations discontinued or sold shown below represent the operations of HRT's retailing operations, Lerner and Otasco for the three years ended January 31, 1986.

	Year Ended January 31,		
	1986	1985	1984
	(In Millions)		
HRT:			
Revenues	$374.8		
Costs and expenses	387.9		
Loss before income tax benefit	(13.1)		
Income tax benefit	(5.6)		
Net loss	(7.5)		
Equity in net loss		$ (3.2)	
Lerner:			
Revenues		690.3	$700.1
Costs and expenses		658.3	637.9
Income before income taxes		32.0	62.2
Income taxes		14.2	28.7
Net income		17.8	33.5
Otasco:			
Revenues			303.9
Costs and expenses			290.3
Income before income taxes			13.6
Income taxes			6.5
Net income			7.1
Income (loss) from operations discontinued or sold - net of taxes	$ (7.5)	$ 14.6	$ 40.6

4. McGREGOR CORPORATION

Effective October 27, 1983, McGregor, which until then had been a wholly-owned subsidiary of Rapid, publicly sold 2,250,000 shares of its common stock and received approximately $37,000,000 in net proceeds. McGregor paid Rapid $30,000,000 of such net proceeds to satisfy its obligation arising from the redemption during August 1983 of its preferred stock owned by Rapid.

During 1984, in a series of transactions McGregor acquired all of the outstanding capital stock of Faberge for approximately $100,000,000 in cash and $70,000,000 principal amount of McGregor 15-1/2% Subordinated Notes, due 1994.

During January 1985, Rapid purchased 80,000 shares of McGregor common stock in the open market for approximately $1,800,000 which increased its ownership to approximately 55.5%. In March 1985, Rapid acquired the minority interest in McGregor for approximately $50,000,000 in cash.

5. INVESTMENTS AND ADVANCES

Other investments includes preferred stock of ILC Industries, Inc. ("ILC"). As of January 31, 1982, Rapid sold its common stock investment in ILC to Meshulam Riklis and Carl H. Lindner in exchange for $5,550,540 in notes. Mr. Riklis has purchased Mr. Lindner's stock interest and has assumed the obligation to Rapid. The principal amount of the notes was included in due from stockholders and affiliates (Rapid distributed such note to its parent corporation, Rapid-American Holding Corporation ("Holding"), as a dividend during the year ended January 31, 1986). During March 1982, in exchange for indebtedness due from ILC, Rapid obtained approximately 74,500 shares of ILC preferred stock having a liquidation and redemption value of $100 per share, which provides for quarterly noncumulative dividends at the annual rate of $10.00 per share, restricts dividends on ILC's common stock to an amount equal to the amount paid on the preferred stock, requires redemption of the preferred stock in an amount equal to varying percentages of the earnings before Federal income taxes (as defined) of ILC in excess of certain specified levels, and redemption of all shares of preferred stock under certain other conditions. During the years ended January 31, 1986 and 1985, no shares of ILC preferred stock were redeemed and no dividends were paid. On or before July 31, 1987, ILC is required to redeem the preferred stock which, at ILC's option, can be paid for in cash, publicly trading debentures of Rapid or McCrory due in 1994, United States Treasury obligations maturing in 1994, or ILC's non-interest bearing subordinated promissory note due in 1994 (each in the aggregate principal amount of the redemption price).

6. INVENTORIES

Inventories at the lower of cost or market consisted of the following:

	January 31,	
	1986	1985
	(In Thousands)	
At LIFO cost - whiskey, other spirits and wine:		
In bond	$ 81,397	$104,310
Tax paid	5,956	6,965
At cost - whiskey, other spirits and wine in bond	8,934	8,936
Retail method	-	45,254
Principally LIFO:		
Merchandise at stores and warehouses	695,603	176,913
Raw materials and supplies	1,985	1,925
Principally FIFO and average cost:		
Merchandise at stores, plants and warehouses	49,591	47,320
Work in process	10,446	9,823
Raw materials and supplies	33,835	33,068
Total	$887,747	$434,514

7. INTANGIBLES

The aggregate cost of investments exceeded equity in underlying net assets acquired at dates of acquisition as follows:

	January 31, 1986	January 31, 1985
	(In Thousands)	
Schenley	$173,614	$173,614
Faberge	76,369	75,049
McGregor	33,449	18,412
McCrory	18,995	19,135
Jody	9,279	9,279
Other	1,000	999
Total*	312,706	296,488
Less accumulated amortization	38,748	33,483
Net	$273,958	$263,005

* Includes $209,076,000 at January 31, 1986 and $192,643,000 at January 31, 1985, which is being amortized over forty years (see Note 1).

Net income of Schenley was $38,045,000, $31,828,000 and $33,131,000, respectively, for the years ended January 31, 1986, 1985 and 1984. The net assets of Schenley at January 31, 1986 and 1985 were $405,321,000 and $392,883,000, respectively.

8. INDEBTEDNESS AND WARRANTS

Short-Term

Short-term borrowings for the three years ended January 31, 1986 were as follows:

	Year-End		During the Year		
				Average *	
	Amount Outstanding	Average Interest Rate	Maximum Amount Outstanding	Amount Outstanding	Interest Rate
	(In Thousands, Except Percentages)				
January 31, 1986:					
Credit lines and commercial paper .	$109,910	11.0%	$152,000	$ 86,300	9.8%
Trade acceptances ..	11,390	9.1	18,700	14,200	9.6
Total	$121,300		$170,700	$100,500	
January 31, 1985:					
Credit lines and commercial paper .	$ 10,177	11.9%	$ 40,000	$ 19,500	14.2%
Trade acceptances ..	14,050	11.3	48,300 **	42,200 **	12.0
Total	$ 24,227		$ 88,300	$ 61,700	
January 31, 1984:					
Credit lines and commercial paper .	$ 1,000	11.0%	$ 84,300	$ 20,400	11.9%
Trade acceptances ..	45,326 **	10.4	49,000	34,500	10.3
Total	$ 46,326		$133,300 **	$ 54,900 **	

* Average borrowings were calculated using the average month-end borrowings outstanding and the average interest rates were calculated by dividing the interest expense for such borrowings by the average month-end borrowings outstanding.

** Includes amounts attributable to operations sold.

At January 31, 1986, Rapid's subsidiaries had available bank lines of credit aggregating approximately $264,000,000, of which approximately $121,300,000 was outstanding.

Long-Term

Details of consolidated long-term debt, including current maturities, at January 31, 1986 and 1985 were as follows:

Description	Amount Outstanding January 31, 1986	Amount Outstanding January 31, 1985	Effective Interest Rate January 31, 1986	Effective Interest Rate January 31, 1985
	(In Thousands)			
Commercial paper:				
McGregor	$ 52,000	-	8.0%	-
Notes payable to banks:				
McGregor	250	$ 97,250	9.5	10.5-12.5%
HRT	-	25,000	-	11.0
Notes due to insurance companies:				
Schenley 10% notes due to 1986	-	20,000	-	10.0
Senior subordinated indebtedness:				
15-3/4% notes due 1991*	75,000	125,000	16.3	16.3
Variable rate notes due 1994*	75,000	75,000	11.2	12.6
14-1/2% notes due to 1994	105,000	200,000	15.1	15.1
Zero coupon debentures due to 2007	203,614	439,550	14.2-16.7	14.2-16.7
Subordinated indebtedness:				
7-1/2% SF debentures due 1985	-	17,802	-	9.4
10-1/2% SF debentures due 1985*	-	5,273	-	11.3
14-1/2% notes due 1988*	23,165	-	14.5	-
6% SF debentures due 1988	55,695	55,695	8.0	8.0
6-1/2% convertible debentures due 1992*	3,369	3,379	6.9	6.9
7% debentures due 1994 (1969 issue)	50,269	51,766	9.3	9.3
7% debentures due 1994 (1972 issue)	60,662	66,277	9.9	9.9
7-1/2% SF debentures due to 1994*	14,839	15,914	9.5	9.5
6-1/2% convertible debentures due 1994*	697	707	6.5	6.5
15-1/2% SF notes due to 1994**	69,776	69,776	16.2	16.2
7-3/4% SF debentures due to 1995*	14,684	15,329	12.1	12.1
7-5/8% SF debentures due to 1997*	11,804	12,204	9.8	9.8
12% SF debentures due to 1999	15,191	15,266	12.9	12.9
10-3/4% SF debentures due to 2003	103,940	153,140	13.7	13.7
10-3/4% SF debentures due to 2004	5,656	5,870	13.7	13.7
11% SF debentures due to 2005	11,360	15,509	14.0	14.0
10% SF debentures due to 2006	138,587	138,510	20.7	20.7
15% SF debentures due to 2008	12,903	13,392	16.8	16.8
9-1/2% SF debentures due to 2008*	26,049	39,566	15.1	15.1
9-5/8% SF debentures due to 2008*	28,171	43,491	15.5	15.5
9-3/4% SF debentures due to 2008*	39,514	47,114	15.7	15.7
11-3/4% SF debentures due to 2009	12,169	46,419	14.5	14.5
Notes and mortgages payable:				
Rapid	33,358	36,490	2.0-10.5	2.0-14.0
View Top Corporation	11,214	8,929	10.0-13.5	11.8-14.0
McCrory and subsidiaries	25,699	18,774	5.5-13.0	5.5-17.0
Schenley	7,980	7,980	11.6-14.0	12.8-14.0
McGregor and subsidiaries	640	1,212	8.5-18.0	13.5
Total principal amount	1,288,255	1,887,584		
Less: Current maturities	(57,958)	(76,721)		
Unamortized discount and expense	(265,412)	(492,850)		
Total	$ 964,885	$1,318,013		

* Indebtedness of McCrory or one of its subsidiaries.
** Indebtedness of McGregor.

The 6-1/2% Convertible Debentures due 1992 of McCrory are convertible at the rate of $70 principal amount into $45 principal amount of 10% Sinking Fund Subordinated Debentures due 2006 of Rapid plus $3.25 in cash. The 6-1/2% Convertible Debentures due 1994 of Newberry are convertible at a rate of $150 principal amount for each share of Newberry common stock. During the year ended January 31, 1986, $10,000 principal amount of the McCrory 6-1/2% debentures were converted and $6,390 principal amount of such 10% debentures were issued together with $462 in cash.

Aggregate principal amount of long-term debt at January 31, 1986 matures as follows:

Year Ending January 31,	(In Thousands)	Five Years Ending January 31,	(In Thousands)
1987	$ 57,958	1991	$ 258,959
1988	29,529	1996	559,453
1989	106,028	2001	98,427
1990	31,731	2006	176,171
1991	33,713	2011	195,245
Total ...	$258,959	Total ..	$1,288,255

At January 31, 1986, notes and mortgages payable aggregating approximately $46,800,000 were secured by land, buildings and equipment having an approximate carrying value of $61,900,000.

Rapid

In March 1984, Rapid received proceeds of approximately $333,000,000 from the public sale of $200,000,000 principal amount of 14-1/2% Senior Subordinated Notes, due to 1994 and $506,000,000 principal amount of Serial Zero Coupon Senior Subordinated Debentures, due 1985 through 2007.

The Indentures for the 14-1/2% Senior Subordinated Notes and the Zero Debentures contain restrictions on dividends and advances to stockholder and affiliates. See Item 5 - "Market for the Registrant's Common Equity and Related Stockholder Matters." In addition, under certain circumstances, a portion of the proceeds in excess of $150,000,000 from the sale of assets not in the ordinary course of business by Rapid and its subsidiaries is to be used to retire certain indebtedness, which may include the 14-1/2% Senior Subordinated Notes and Zero Debentures. During April 1985, sufficient notes were purchased on the open market to satisfy the obligation resulting from the sales of Otasco and Lerner. During August 1985, the holders of Rapid's 14-1/2% Senior Subordinated Notes and Zero Debentures, consented to an amendment of their respective indentures, which, among other things, increased the amount available for dividends and loans to Affiliates (as defined).

On February 26, 1986, McCrory entered into a credit agreement (the "McCrory Credit Agreement") with 10 banks providing for a revolving credit facility of $165,000,000 until January 31, 1989 (which may be used as a back-up line for the issuance of commercial paper) and bank line commitments aggregating $100,000,000 were cancelled. Interest on borrowings under the McCrory Credit Agreement is payable at 1/2 of 1% above the prime rate. The McCrory Credit Agreement requires McCrory to pay quarterly commitment fees computed at the rate of 1/2 of 1% per annum on the average daily unused commitment.

The McCrory Credit Agreement, among other restrictions, requires McCrory to maintain minimum levels of (i) consolidated tangible net worth plus subordinated indebtedness, (ii) consolidated tangible net worth, (iii) consolidated net current assets, (iv) ratios of consolidated current assets to current liabilities, and (v) ratios of earnings to interest expense (as each such term is defined). Subject to certain limitations, McCrory may pay cash dividends on its common stock in an amount not exceeding 50% of its consolidated net income (as defined) and may also pay cash dividends on its preference stocks in accordance with the stated dividend rates.

In July 1984, McCrory received net proceeds of approximately $193,000,000 from the public sale of $125,000,000 principal amount of 15-3/4% Senior Subordinated Notes, due 1991 ("15-3/4% Notes") ($75,000,000 outstanding at January 31, 1986) and $75,000,000 principal amount of Senior Subordinated Exchangeable Variable Rate Notes ("Variable Rate Notes"). The Variable Rate Notes are due on July 15, 1994 unless such notes are exchanged, at the option of McCrory through July 15, 1988, for Fixed Rate Notes. If the exchange option is exercised, such Fixed Rate Notes will be due five years from the exchange date and bear interest at 127% of the Five Year Treasury Rate (as defined). Interest on the Variable Rate Notes is payable at a variable rate per annum equal to the greater of (i) 3.5% over the Three Month Treasury Rate (as defined) or (ii) 2.5% over the Three Month Certificate of Deposit Rate (as defined) for each quarterly period prior to the earlier of July 15, 1994 or the Exchange Date.

The McCrory Credit Agreement, the Indenture for the 15-3/4% Notes and Variable Rate Notes and other loan and guaranty agreements contain material restrictions on McCrory and its subsidiaries, including restrictions on dividends, advances to Rapid, indebtedness, liens, guarantees, lease commitments, the disposition of property, investments and the right to engage in business combinations. See Item 5 - "Market for the Registrant's Common Equity and Related Stockholder Matters." In addition, the Indenture for the 15-3/4% Notes and Variable Rate Notes provides that, under certain circumstances, a portion of the proceeds in excess of $80,000,000 from the sale of assets not in the ordinary course of business by McCrory and its subsidiaries is to be used to retire the Variable Rate Notes and the 15-3/4% Notes. During April 1985, sufficient Notes were purchased on the open market to satisfy the obligation resulting from the sales of Otasco and Lerner.

At January 31, 1986, HRT had a $10,000,000 revolving credit facility and a $21,250,000 reducing revolving credit facility both guaranteed by McCrory.

The aggregate borrowings under such facilities at January 31, 1986 was $18,250,000. The agreement also provided for interest at 1/2% in excess of the bank's prime rate and an annual facility fee of 1/4% of the commitments. On February 26, 1986, concurrent with the signing of the McCrory Credit Agreement, the HRT credit facilities were terminated and a demand note was substituted which allows an aggregate borrowing of up to $30,000,000 at an interest rate of 1/2% in excess of the bank's prime rate. Such note is guaranteed by McCrory.

During February 1986, T. G. & Y. Stores obtained a credit facility from a bank which permits an aggregate borrowing of up to $50,000,000, payable on demand and bearing interest at 1% above the prime rate. The credit facility is collateralized by T. G. & Y. Stores' interest in the proceeds from the reversion of its pension plans.

Schenley

During December 1985, Schenley entered into a secured credit agreement with two banks providing for a credit facility until December 1986, in an aggregate principal amount in Pounds Sterling equivalent of up to $75,000,000 to be used for purchases of marketable securities and collaterized by the securities purchased. As of January 31, 1986, approximately $41,000,000 was outstanding under the secured credit agreement. The credit agreement contains a restriction limiting the payment of dividends (other than dividends paid by reducing or cancelling receivables from Rapid in an amount not to exceed the amount shown on Schenley's consolidated balance sheet at October 31, 1985 as marketable securities and notes receivable from Rapid) to 70% of the consolidated net earnings after taxes of Schenley and its Subsidiaries (as defined) on a cumulative basis from August 1, 1985. In addition, the credit agreement contains other material restrictions on Schenley and its Subsidiaries relating to incurring indebtedness, guarantees, investments, and maintaining certain financial ratios.

McGregor

On January 21, 1986, McGregor entered into a five-year revolving credit facility (the "McGregor Credit Agreement") with a group of banks, which provides for a maximum of $90,000,000 in direct borrowings and the private placement of commercial paper supported by a bank letter of credit. The McGregor Credit Agreement requires a facility fee of 3/4% on the commitment, which commitment is reduced $10,000,000 annually for five years beginning January 31, 1987. At the end of such five years, the balance of $40,000,000 is converted to a three-year loan payable in equal quarterly installments. The interest rate on direct borrowings is, based upon the amount outstanding: less than $30,000,000 at prime, as defined (the "Rate"), plus 1/2%; from $30,000,000 to less than $60,000,000 at the Rate plus 1%; from $60,000,000 to $90,000,000 at the Rate plus 1-1/2%. The McGregor Credit Agreement prohibits the payment of dividends and includes other material restrictions on McGregor, including restrictions on loans, advances and additional indebtedness.

Concurrently with entering into the McGregor Credit Agreement, McGregor repaid the outstanding balance under a prior loan agreement ($87,500,000) together with accrued interest thereon. In connection with such repayment, McGregor privately placed $55,000,000 of commercial paper, of which $52,000,000 was outstanding at January 31, 1986. Since McGregor intends to pay its commercial paper obligations using the proceeds of the McGregor Credit Agreement, such commercial paper obligations are classified as long-term in the accompanying consolidated balance sheet.

Pursuant to the merger with Faberge, on August 23, 1984, approximately $69,800,000 principal amount of 15-1/2% Sinking Fund Subordinated Notes due August 31, 1994 were issued. The Indenture for the 15-1/2% Notes requires that on or before August 31 of each year from 1991 to and including 1993, McGregor will redeem (without premium) 25% of the principal amount of 15-1/2% Notes outstanding. The Indenture contains material restrictions on McGregor. See Item 5 - "Market for the Registrant's Common Equity and Related Stockholder Matters."

Restricted Net Assets

As described above, certain subsidiaries are restricted by agreements which limit, among other matters, cash dividends and advances to Rapid. At January 31, 1986, the net assets of Rapid's subsidiaries were approximately $876,000,000 (includes net intercompany accounts of approximately $130,000,000), of which the restricted net assets were approximately $518,000,000.

Warrants

At January 31, 1986, there were 744,501 warrants outstanding. Each warrant is exercisable for $45 principal amount of 10% Sinking Fund Subordinated Debentures, due 2006 and $3.25 in cash at an exercise price of $35. The warrants are redeemable, at Rapid's option, at $20 per warrant and expire May 15, 1994. In addition, the Indentures for Rapid's 12% Sinking Fund Subordinated Debentures, due 1999 and 15% Sinking Fund Subordinated Debentures, due 2008, provide that such debentures may be applied at their principal amount to the warrant exercise price. During the year ended January 31, 1986, 2,143 warrants were exercised and $96,435 principal amount of such 10% Debentures were issued together with $6,965 in cash.

9. CAPITAL STOCK

At January 31, 1986, Holding owned all of the outstanding capital stock of Rapid.

During December 1984, Holding acquired all of the common stock of Rapid owned by American Financial Corporation ("AFC") and delivered to AFC its promissory note in the principal amount of $110,000,000 payable on January 15, 1985. On January 15, 1985, Holding privately placed $110,000,000 of 16% notes payable in 1995 (the "16% Notes"). The proceeds were used by Holding to pay

its promissory note to AFC. In connection with the private placement, Holding exchanged the common stock of Rapid it acquired from AFC for shares of a newly created preferred stock of Rapid. The shares of preferred stock were used to secure Holding's obligations under the 16% Notes.

There are 12,100 shares of preferred stock issued and outstanding. The annual cumulative dividend rate on the preferred stock is $1,600 per share except that the dividend payable on January 15, 1986 (which was the first dividend payment date) was $1,696 per share. The dividend rate in certain circumstances may be increased up to a maximum of $2,100 per share. The preferred stock may be redeemed at any time and from time to time at the option of Rapid at a redemption price of $10,000 per share.

10. INCOME TAXES

Rapid and its domestic subsidiaries are included in Holding's consolidated Federal income tax return.

The examinations by the Internal Revenue Service (the "IRS") of the Federal income tax returns of Rapid and its subsidiaries have been substantially completed for the periods ended January 31, 1978. While the liabilities for the above-mentioned periods and open years are subject to final determination, the amounts accrued in the consolidated balance sheets, in the opinion of management, are adequate to cover amounts which may ultimately be payable.

The provision (benefit) for income taxes included in the statements of consolidated operations consisted of the following:

	Year Ended January 31,		
	1986	1985	1984
		(In Thousands)	
Continuing operations:			
Federal:			
Currently payable	$10,524	$(13,931)	$(8,840)
Deferred	5,461	1,326	8,831
Foreign:			
Currently payable	701	984	141
Deferred	13	508	-
State	10,327	6,352	5,136
	27,026	(4,761)	5,268
Operations discontinued or sold:			
Federal:			
Currently payable	29,823	9,220	27,201
Deferred	(5,508)	7,385	3,635
State	2,405	2,100	4,347
	26,720	18,705	35,183
	$53,746	$ 13,944	$40,451

Deferred Federal and foreign income taxes relating to continuing operations result from the tax effects of items reported in different periods for tax and financial reporting purposes. The sources of these differences and the tax effect of each were as follows:

	Year Ended January 31, 1986	1985 (In Thousands)	1984
Capitalized interest	$ 4,104	-	-
Amortization of debt discount	(694)	$ 2,452	$ 3,040
Excess of tax over book depreciation	522	1,480	2,300
Capital leases	460	438	696
Net change in reserves for store closings	2,933	232	1,101
Disposition of Canadian alcoholic beverage operations	(477)	(913)	(931)
Other	(1,374)	(1,855)	2,625
Total	$ 5,474	$ 1,834	$ 8,831

The following is a reconciliation of the provision for income taxes from continuing operations (excluding minority interest) before provision (benefit) for income taxes. The reasons for the variances from the statutory rate were as follows:

	Year Ended January 31, 1986	1985 (In Thousands)	1984
Provision (benefit) for income taxes computed at Federal statutory rate	$30,426	$(2,668)	$ 8,872
Increase (decrease) in income taxes resulting from:			
Dividends received deduction	(8,943)	(4,645)	(327)
State tax provision (net of Federal income taxes)	5,577	3,431	2,772
Dividends from foreign subsidiary	4,564	-	-
Amortization of excess cost of investments over related equities and other intangibles	2,505	2,142	1,438
Capital gains rate differential	(3,986)	(366)	(1,790)
Investment tax credits	(1,792)	(3,969)	(1,041)
McGregor sale of common stock	-	-	(2,936)
Other	(1,325)	1,314	(1,720)
Provision (benefit) for income taxes	$27,026	$(4,761)	$ 5,268

At January 31, 1986, for Federal income tax purposes, HRT had net operating loss carryforwards of approximately $64,000,000 available to offset future taxable income. The carryforwards expire in 1998 and 1999.

11. DUE FROM STOCKHOLDER AND AFFILIATES

Net unsecured amounts due from stockholder and affiliates are deducted from stockholder's equity. The maximum amount due to Rapid from Meshulam Riklis and his wholly-owned entities during the years ended January 31, 1986 and 1985 was approximately $68,000,000 and $58,000,000, respectively.

In August 1985 and December 1985, Rapid declared a common stock dividend of certain net indebtedness due to Rapid from World Wide Distributors, Inc. ("World Wide"), having an approximate net book value of $58,866,000 and $2,175,000, respectively. See "Introductory Note," Note 5 and Item 13 - "Certain Relationships and Related Transactions," paragraphs 2, 3, 4, 5, 6, 7, 8, 10, 15, 18, 20 and 25, which are an integral part of these financial statements.

12. PENSION PLANS

The financial statements for the year ended January 31, 1986 reflect the adoption for the United States pension plans of SFAS Nos. 87 and 88. Adoption of these standards had the effect of reducing pension costs and increasing pretax income from continuing operations for the year ended January 31, 1986 by approximately $4,250,000, principally from a gain from a McCrory pension plan settlement. In addition, McCrory reversed its February 1, 1985 pension accrual of $4,694,000 which was no longer required upon the termination of its plan.

Rapid and its subsidiaries have various contributory and noncontributory pension plans covering eligible employees.

On October 11, 1985, the McCrory Stores Pension Plan, a defined benefit pension plan covering Newberry's and McCrory's eligible employees, was terminated. A single premium group annuity contract has been purchased from an insurance company to settle the accumulated benefit obligation of approximately $67,000,000 (nonvested benefits became vested upon termination of the plan). The Pension Benefit Guaranty Corporation ("PBGC") has approved the plan termination and approval of the IRS has been requested. McCrory has received a distribution of approximately $9,200,000 of assets from the plan (see Item 13 - "Certain Relationships and Related Transactions," paragraph 27, which is an integral part of these financial statements) and has recognized during the fourth quarter of fiscal 1985 a $4,977,000 gain on settlement of the pension obligation. Management intends to establish for its employees a substitute retirement plan.

On October 11, 1985, Faberge terminated its Pension Plan for Salaried Employees, a defined benefit pension plan. A single premium group annuity contract has been purchased from an insurance company to settle the accumulated benefit obligation of $11,824,000 (nonvested benefits became

vested upon termination of the plan). The PBGC has approved the plan termination and approval of the IRS has been requested. Management intends to establish for its employees a substitute retirement program other than a defined benefit plan. McGregor has recognized during the fourth quarter of fiscal 1985 a $9,059,000 gain on settlement of the pension obligation.

Net pension cost of continuing operations for the year ended January 31, 1986 includes the following components:

	(In Millions)
Service cost	$ 1.9
Interest cost	13.1
Actual return on plan assets	(20.1)
Other	5.2
Net pension cost	$ .1

The funded status of the United States plans of continuing operations at December 31, 1985 was as follows:

	Underfunded	Overfunded
	(In Millions)	
Projected benefit obligations	$ 73.7	$ 2.0
Plan assets at fair value	53.4	2.4
Assets in excess of/(less than) projected benefit obligations	(20.3)	.4
Unrecognized net (obligation) gain existing at February 1, 1985	(2.3)	.4
Unrecognized net loss (gain)	5.3	(.1)
Accrued pension cost	$(17.3)	$ (.1)
Accumulated benefit obligations	$ 69.3	$ 2.0
Vested benefit obligations	$ 68.5	$ 1.4

The weighted-average discount rate and rate of increase in future compensation levels used in determining the projected benefit obligation is 8.5% to 9% (8.5% to 11% at February 1, 1985) and 5% to 6%, respectively. The expected long-term rate of return on plan assets was 8.5% to 11%. Plan assets consist principally of United States government obligations and corporate bonds.

Net pension cost of continuing operations for the year ended January 31, 1986 was approximately $100,000 and pension cost was $6,438,000 and $6,751,000 for the years ended January 31, 1985 and 1984, respectively. The decrease in pension cost for the year ended January 31, 1986 is not directly comparable with 1985 and 1984 pension costs because of the significant changes in accounting for pension costs under SFAS No. 87. The decrease in pension costs of continuing operations for the year ended January 31, 1985 resulted primarily from changing the assumed rate of return on pension fund assets associated

with presently retired, terminated and vested participants from 8% to 11% in 1984. It is the general policy to fund accrued pension costs as required.

Prior to the adoption of SFAS No. 87, the actuarial present value of consolidated accumulated plan benefits of continuing operations at January 1, 1985 was $163,800,000 (of which $152,500,000 was vested) compared with net assets available for benefits of $170,100,000. The assumed annual rate of return used in determining the actuarial present value of consolidated accumulated plan benefits was principally 9%.

Employment agreements with certain officers and employees of Rapid and its subsidiaries provide, among other things, for retirement and/or deferred compensation allowances payable generally over a period of years after employment ceases, contingent upon certain conditions set forth in the agreements. During the years ended January 31, 1986, 1985 and 1984, $4,900,000, $3,900,000 and $1,400,000, respectively, were provided by continuing operations for such allowances.

13. PROPERTY AND LEASE COMMITMENTS

Property, plant and equipment, at cost, consisted of the following:

	January 31, 1986 (In Millions)	January 31, 1985 (In Millions)
Land	$ 15.2	$ 40.3
Buildings, store properties and warehouses	111.8	103.2
Furniture, fixtures and leasehold improvements	277.3	233.3
Machinery and equipment	131.3	122.9
Total	$535.6	$499.7

Rapid and its subsidiaries operate principally in leased premises. The basic terms of the initial leases generally range from 1 to 25 years and usually provide for one or more three to five-year renewal options, plus in many instances, the payment of additional rental based upon percentages of sales, real estate taxes, insurance and maintenance costs. For certain property transactions, see Item 13 - "Certain Relationships and Related Transactions," paragraphs 21, 22, 24, 26 and 27, which are an integral part of these financial statements.

Property and equipment under capital leases consisted of the following:

	January 31, 1986 (In Millions)	January 31, 1985 (In Millions)
Buildings and store properties	$118.8	$114.7
Machinery and equipment	19.5	19.1
Less accumulated amortization	(54.7)	(84.0)
Net	$ 83.6	$ 49.8

The minimum rental commitments on leases of continuing operations (exclusive of common area charges) in effect at January 31, 1986 are as follows:

Years Ending January 31,	Capital Leases	Operating Leases
	(In Millions)	
1987	$ 16.7	$ 96.9
1988	16.0	90.7
1989	15.2	83.9
1990	13.9	76.9
1991	13.4	71.7
Thereafter	93.0	517.1
Total minimum payments required*	168.2	$937.2
Less:		
Amount representing interest	(65.2)	
Amount representing estimated executory costs included in minimum lease payments	(9.8)	
Present value of net minimum lease payments	93.2	
Less current portion	7.4	
Long-term obligations	$ 85.8	

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* Minimum payments have not been reduced by minimum sublease rentals of $6.9 million under capital leases and $110.4 million under operating leases due in the future under noncancellable subleases. Contingent rentals which may be paid under certain leases have not been included.

Rental expense relating to operating leases of continuing operations was as follows:

	Year Ended January 31,		
	1986	1985	1984
		(In Millions)	
Minimum rentals	$ 40.5	$ 36.4	$ 31.7
Contingent rentals and expenses	22.7	22.3	20.9
Less - sublease rentals	(12.3)	(10.9)	(11.6)
Net	$ 50.9	$ 47.8	$ 41.0

Contingent rentals applicable to capital leases of continuing operations amounted to $2.1 million, $2.0 million and $1.5 million, respectively, in the years ended January 31, 1986, 1985 and 1984.

14. LITIGATION, COMMITMENTS AND CONTINGENCIES

Rapid and certain of its subsidiaries are defendants in various actions in which plaintiffs allege violations of corporation laws or product liability laws. Substantial damages or significant declaratory or injunctive relief are requested in certain of these actions. In addition, actions are pending and there are asserted and unasserted claims against Rapid and certain of its subsidiaries by landlords, vendors, customers, former employees and others in which substantial damages are or may be requested. Management believes that, after discussion with counsel and a review of the actions and claims which have been settled or dismissed, the reduction in the number of individual actions and the resolution of certain controversies between Rapid and other parties during the year ended January 31, 1986, the ultimate outcome of pending actions and claims will not have a material effect on Rapid's consolidated financial position. See Item 3 - "Legal Proceedings," which is an integral part of these financial statements.

At January 31, 1986, Rapid was guarantor of the following: (a) approximately $15,000,000 of lease payments supporting industrial revenue bonds and approximately $22,000,000 of other lease payments, all of which are obligations of former subsidiaries, as to which the purchasers of such subsidiaries have agreed to indemnify Rapid against any loss under the guarantees; (b) other obligations of approximately $1,000,000, certain of which are lease payments of subsidiaries; and (c) certain obligations of Meshulam Riklis or entities wholly-owned by him aggregating approximately $17,000,000 (see Item 13 - "Certain Relationships and Related Transactions," paragraphs 1, 7 and 13).

Schenley has entered into a contract to purchase specified quantities of Canadian whiskies through 2001. Purchases under the contract were approximately $10,000,000, $11,600,000 and $11,800,000 for the three years ended January 31, 1986, respectively. Based upon the price paid during the year ended January 31, 1986, the minimum obligation of Schenley for future purchases will be approximately $137,300,000, including approximately $9,600,000 per year for fiscal years 1987 through 1991.

Rapid and certain of its subsidiaries make payment to suppliers by means of letters of credit. In addition, certain subsidiaries of Rapid have obtained letters of credit to secure obligations under employment contracts and a computer service agreement. At January 31, 1986, letters of credit outstanding aggregated approximately $85,000,000.

15. WORLD WIDE

As of June 1, 1984, World Wide entered into agreements to advise, furnish and monitor the computer and communications needs of certain subsidiaries of Rapid. During the years ended January 31, 1986 and 1985, Rapid and its subsidiaries paid World Wide approximately $17,000,000 and $11,500,000, respectively. See Item 13 - "Certain Relationships and Related Transactions," paragraph 14, which is an integral part of these financial statements.

16. OTHER REVENUES

Other revenues - net of continuing operations consisted of the following:

	Year Ended January 31, 1986	1985	1984
	(In Thousands)		
Interest income	$ 32,408	$29,559	$15,946
Dividends	29,747	13,059	860
Gain on sales of securities - net	23,158	2,057	-
Gain from pension plan settlements	14,036	-	-
Royalties - net	12,056	11,325	5,575
Financial management service fees from a related party	5,714	-	-
Reversal of pension accrual	4,694	-	-
Gain on sales of aircraft	1,552	4,654	-
Gain on sales of other property and equipment	1,178	1,147	2,349
Income of nonconsolidated subsidiaries	520	264	603
Non-taxable gain on the public sale by McGregor of its common stock	-	-	7,912
Gain on sale of race track	-	-	6,760
Gain on sale of lease	-	-	551
Gain on cash purchases of subordinated debentures for sinking funds	-	245	329
Sundry - net	9,952	5,741	8,435
Total	$135,015	$68,051	$49,320

17. SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Year Ended January 31, 1986	1985	1984
	(In Thousands)		
Maintenance and repairs	$ 18,421	$ 17,177	$ 13,667
Amortization of intangible assets	$ 5,775	$ 4,669	$ 4,681
Taxes, other than income and payroll taxes:			
Property	$ 9,131	$ 9,570	$ 8,789
Federal excise, rectification taxes and duties on imported products	97,573	102,919	107,886
Other	5,334	1,349	1,187
Total	$112,038	$113,838	$117,862
Advertising costs	$ 69,077	$ 71,098	$ 49,270

All amounts above pertain to continuing operations.

18. ACCRUED EXPENSES AND SUNDRY

Accrued expenses and sundry consisted of the following:

	January 31, 1986	January 31, 1985
	(In Thousands)	
Salaries, wages, commissions, etc.	$ 48,153	$ 36,805
Taxes, other than Federal and foreign income	44,450	32,875
Interest	29,101	40,440
Advertising	21,092	13,115
Rents	11,819	6,867
Insurance	9,841	-
HRT Chapter 11 Bankruptcy Code liabilities	7,844	7,869
Contributions to employee benefit plans	4,087	7,177
Trucking and warehousing	-	7,857
Other	32,285	29,116
Total	$208,672	$182,121

19. EXTRAORDINARY ITEMS

During the year ended January 31, 1986, in open market purchases, McCrory purchased the following principal amounts of Rapid's notes and debentures:

	Amount
Serial Zero Coupon Senior Subordinated Debentures due to 2007	$213,936,000
14-1/2% Senior Subordinated Notes due to 1994	95,000,000
10-3/4% Sinking Fund Subordinated Debentures due to 2003	49,200,000
11-3/4% Sinking Fund Subordinated Debentures due to 2009	34,250,000
7% Subordinated Debentures due 1994 (1972 Issue)	5,615,000
11% Sinking Fund Subordinated Debentures due to 2005	4,150,000
7% Subordinated Debentures due 1994 (1969 Issue)	1,496,000
15% Sinking Fund Subordinated Debentures due to 2008	489,000
10-3/4% Sinking Fund Subordinated Debentures due to 2004	214,000

In addition, McCrory purchased the following principal amounts of its notes and debentures:

	Amount
15-3/4% Senior Subordinated Notes due 1991	$ 50,000,000
9-5/8% Sinking Fund Subordinated Debentures due to 2008	15,320,000
9-1/2% Sinking Fund Subordinated Debentures due to 2008	13,518,000
9-3/4% Sinking Fund Subordinated Debentures due to 2008	7,600,000
7-1/2% Sinking Fund Subordinated Debentures due to 1994	1,075,000
7-3/4% Sinking Fund Subordinated Debentures due to 1995	645,000
7-5/8% Sinking Fund Subordinated Debentures due to 1997	400,000

Rapid recorded an extraordinary charge of $4,003,000 on the McCrory purchases representing the difference between the carrying value of the notes and debentures purchased (the principal amount reduced by applicable unamortized debt discount and expense) and the purchase price of the notes and debentures, net of Federal income tax benefits of $3,409,000.

During the year ended January 31, 1985, Rapid purchased approximately $156,000,000 principal amount of its 10% Sinking Fund Subordinated Debentures, due 2006. Rapid recorded an extraordinary charge of $18,240,000 on the purchase representing the difference between the carrying value of the debentures purchased (the principal amount reduced by applicable unamortized debt discount) and the purchase price of the debentures, net of Federal income tax benefits of $15,537,000.

Rapid, pursuant to an exchange offer which expired in November 1983, issued $46,419,000 principal amount of 11-3/4% Sinking Fund Subordinated Debentures, due 2009 in exchange for an equal principal amount of 6% Sinking Fund Subordinated Debentures, due 1988. Rapid recorded an extraordinary gain of $2,281,000 (after deferred Federal income taxes of $1,943,000) on the exchange representing the difference between the carrying value of the debentures tendered (the principal amount tendered reduced by applicable unamortized debt discount) and the fair value of the debentures issued.

McCrory, pursuant to an exchange offer which expired in August 1983, issued $6,835,000 principal amount of 9-1/2% Sinking Fund Subordinated Debentures, due 2008 in exchange for an equal principal amount of 7-1/2% Sinking Fund Subordinated Debentures, due 1994 (new issue). McCrory recorded an extraordinary gain of $679,000 (after deferred Federal income taxes of $578,000) on the exchange representing the difference between the carrying value of the debentures tendered (the principal amount tendered reduced by applicable unamortized debt discount) and the fair value of the debentures issued.

20. INTERIM FINANCIAL INFORMATION (Unaudited)

	Quarter Ended,			
Year Ended January 31, 1986	April 30*	July 31*	Oct. 31*	Jan. 31
	(In Millions)			
Net sales from continuing operations .	$417.1	$413.6	$520.7	$546.3
Gross profit from continuing operations	143.5	146.6	191.0	184.9
Income (loss) from continuing operations before provision (benefit) for income taxes and extraordinary charge	(12.6)	(8.8)	21.1	65.8
Gain (loss) on disposition of operations discontinued or sold - net of tax	69.8	-	-	(11.6)
Loss from discontinued operations	(2.5)	(2.3)	(1.5)	(1.2)
Income (loss) before extraordinary charge	62.5	(6.0)	9.9	22.7
Net income (loss)	58.5	(6.0)	9.9	22.7

* Restated to reflect discontinuance of HRT's retailing operations.

Year Ended January 31, 1985	Quarter Ended, April 30*	July 31*	Oct. 31*	Jan. 31*
	(In Millions)			
Net sales from continuing operations .	$399.5	$389.2	$460.7	$501.7
Gross profit from continuing operations	128.8	135.2	165.4	183.4
Income (loss) from continuing operations before provision (benefit) for income taxes and extraordinary charge	(4.4)	(16.5)	3.9	7.5
Income from operations discontinued or sold - net of taxes	3.2	.3	2.6	8.5
Income (loss) before extraordinary charge	(.7)	(10.5)	1.9	19.2
Net income (loss)	(19.0)	(10.5)	1.9	19.2

* Restated to reflect discontinuance of HRT's retailing operations.

21. PARENT COMPANY FINANCIAL STATEMENTS

The following are condensed financial statements of Rapid-American Corporation (Parent Company):

CONDENSED BALANCE SHEETS

ASSETS	January 31, 1986	1985
	(In Thousands)	
Current assets	$ 133,979	$ 115,158
Investments and advances	634,187	612,948
Property, plant and equipment - net	8,212	34,020
Intangibles - net	221,468	207,293
Other assets	20,336	40,845
Total	$1,018,182	$1,010,264

LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities	$ 96,318	$ 91,101
Long-term debt, less current maturities and unamortized discount and expense	755,977	783,845
Other noncurrent items	55,919	58,872
Stockholder's equity, less due from stockholder and affiliates ($24,810,000 and $56,521,000) ..	109,968	76,446
Total	$1,018,182	$1,010,264

Aggregate principal amount of long-term debt at January 31, 1986 matures as follows:

Year Ending January 31,	(In Thousands)	Five Years Ending January 31,	(In Thousands)
1987	$ 52,645	1991	$ 208,406
1988	22,476	1996	462,623
1989	78,154	2001	159,895
1990	27,533	2006	219,860
1991	27,598	2011	161,970
TOTAL ..	$208,406	TOTAL ..	$1,212,754

CONDENSED STATEMENTS OF OPERATIONS

	Year Ended January 31, 1986	1985*	1984
		(In Thousands)	
Net sales and other revenues	$ 13,728	$ 25,802	$ 17,145
Costs, expenses and other deductions	(30,825)	(24,213)	(25,256) **
Interest and debt expense	(125,707)	(128,189)	(93,051)
Income tax benefits	63,952	57,401	48,906
Loss from operations before equity in income of subsidiaries and extraordinary items	(78,852)	(69,199)	(52,256)
Equity in income from continuing operations of subsidiaries	117,303	64,520	65,112
Income (loss) from continuing operations before extraordinary items	38,451	(4,679)	12,856
Equity in gain on disposition of operations discontinued or sold ...	58,191	-	-
Equity in income (loss) from operations discontinued or sold ...	(7,499)	14,563	40,628
Income before extraordinary items ...	89,143	9,884	53,484
Extraordinary charge - net of tax ...	(1,325)	(18,240)	-
Extraordinary credit - net of tax ...	-	-	2,281
Equity in extraordinary (charge) credit of subsidiary - net of tax .	(2,678)	-	679
Net income (loss)	$ 85,140	$ (8,356)	$ 56,444

* Restated for operations discontinued.
** Includes additional bonuses of $6,725,000 earned by operating personnel of McCrory Stores.

CONDENSED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year Ended January 31,		
	1986	1985	1984
		(In Thousands)	
Funds Provided:			
Funds provided by continuing operations (1)	-	-	$ 7,010
Redemption of preferred stock by McGregor	-	-	30,000
Decrease (increase) in investments and advances	$146,696	$ (77,459)	2,829
Decrease in other assets	27,616	-	-
Proceeds from disposal of property and equipment	24,352	-	-
Capital contribution	1,866	-	-
Increase in other long-term debt	218	364,087	-
Issuance of preferred stock	-	110,000	-
Decrease in excess cost	-	1,147	-
	200,748	397,775	39,839
Funds Applied:			
Funds used in continuing operations (1)	25,611	8,349	-
Extraordinary charge (2)	1,434	101,834	-
Decrease in other long-term debt	52,564	51,122	5,083
Acquisition of McGregor common stock	32,171	1,790	-
Due from stockholders and affiliates	24,348	4,146	13,498
Cash dividends	22,817	6,324	1,827
Excess cost in McGregor	17,739	-	-
Dividend of certain net indebtedness due to Rapid	4,982	-	-
Purchases of other investments	2,293	1,747	13
Increase in other assets	1,523	23,559	9,185
Additions to property and equipment - net	514	4,758	1,749
Exchange of common stock	-	110,000	-
Other - net	1,148	1,182	(2,202)
	187,144	314,811	29,153
Increase in Working Capital	$ 13,604	$ 82,964	$ 10,686
Increase (Decrease) in Working Capital by Major Components:			
Current assets	$ 18,821	$ 78,391	$ 3,447
Current liabilities	(5,217)	4,573	7,239
Increase in Working Capital	$ 13,604	$ 82,964	$ 10,686

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(1) Continuing Operations:			
Income (loss) before extraordinary items	$ 38,451	$ (4,679)	$ 12,856
Less - equity in income of subsidiaries	117,303	64,520	65,112
Loss before equity in income of subsidiaries	(78,852)	(69,199)	(52,256)
Cash dividends from subsidiaries	26,201	32,417	52,709
Items not currently requiring (providing) funds - depreciation and amortization (including debt discount and intangibles) and deferred income taxes	27,040	28,433	14,469
Non-taxable gain on public sale by McGregor of its common stock	-	-	(7,912)
Funds provided by (used in) operations	$(25,611)	$ (8,349)	$ 7,010
(2) Extraordinary (charge) credit:			
Gain (loss) on debenture purchase/exchanges	$ (1,325)	$ (18,240)	$ 2,281
Deferred income taxes	(109)	(3,245)	1,943
Decrease in long-term debt	-	(80,349)	(4,224)
Total extraordinary (charge) credit	$ (1,434)	$(101,834)	$ -

22. SEGMENT INFORMATION

See Item 1 - "Business - Segment Information" for net sales, operating profit and asset information relating to Rapid's industry segments, which is an integral part of these financial statements. Additional information concerning industry segments follows:

	Year Ended January 31,					
	1986		1985		1984	
	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization	Capital Expenditures	Depreciation and Amortization
	(In Millions)					
Continuing Operations:						
Retail Merchandising:						
McCrory Stores	$ 49.1	$19.3	$46.5	$16.0	$16.7	$12.7
Gault	.1	.1	-	.1	-	.1
Alcoholic Beverages- Schenley	1.5	2.5	1.8	2.7	2.1	2.9
Consumer Products:						
McGregor	3.1	2.8	5.0	2.0	4.2	1.9
Faberge	6.9	3.0	1.6	3.5	-	-
Other	1.3	.4	-	-	-	-
Corporate and Others .	56.5	7.2	43.3	4.9	5.1	4.1
Total	$118.5	$35.3	$98.2	$29.2	$28.1	$21.7

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES - CONSOLIDATED

For the Three Years Ended January 31, 1986
(In Thousands)

Column A	Column B	Column C	Column D	Column E	
	Balance at beginning of year	Additions (Other)	Amounts Collected (Other)	Balance at end of year	
Name of debtor (1)				Current	Not current
1986:					
Meshulam Riklis and wholly-owned entities (2)..........	$45,932 2,536	$ (4,887)(4) 33,581 (56,059)(3) (2,536)(3)	$ 15,068	$ 3,017	$ 482
Rapid-American Holding Corporation (formerly Riklis Family Corporation) (2).............	7,452	3,521			10,973
Sterik Co. (a)..........		94,011 (5)	75,000	19,011	
Shadrall Associates (b).	7,451		6,194	1,257	
AITS, Inc. (2)..........	7,376	2,005			9,381
Specialty Store Group, Inc. (2).......	350		50	50	250
Harold S. Divine (2)....	1,000				1,000
Mona Ackerman (2).......		3,600		3,600	
Acklinis Associates (c).	6,722		6,722		
American Recreation Group, Limited Partnership...........	2,446	(2,446)(3)			
Leonard C. Lane.........	6,250				6,250
Arie Genger.............	1,200				1,200
Daniel J. Manella.......	1,200				1,200
Charles Jarvie..........	1,000	110		110	1,000
Bernard J. Blaney.......	600				600
Howard S. Feldman.......	550				550
J. Philip Lux...........		350			350
Ben Litwak..............	300	300		600	
	92,365	71,550	103,034	27,645	33,236
Unamortized Discount and Reserves..........	(9,632)	4,887 (4) (3,333)	(273)		(7,805)
Total.................	$82,733	$ 73,104	$102,761	$27,645	$25,431

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES - CONSOLIDATED

For the Three Years Ended January 31, 1986
(In Thousands)

Column A	Column B	Column C	Column D	Column E	
Name of debtor (1)	Balance at beginning of year	Additions (Other)	Amounts Collected (Other)	Balance at end of year Current	 Not current
1985:					
Meshulam Riklis and wholly-owned entities (2)..........	$28,965 2,536	$35,600 2,220 (6) 2,175 (7) (8,422)(8)	$14,549 57 (9)	$ 28	$45,904 2,536 (10)
Carl H. Lindner and majority-owned entity (2)............	12,220	12,000	22,000 (11) 2,220 (6)		
Rapid-American Holding Corporation (formerly Riklis Family Corporation) (2).............	5,000	2,452			7,452
Shadrall Associates (b).		7,451			7,451
AITS, Inc. (2)..........	5,011	365 2,000 (7) 2,175 (7)	2,175 (7)		7,376
Specialty Store Group, Inc. (2).......	425		75	100	250
Harold S. Divine (2)....	1,000				1,000
Acklinis Associates (c).	7,059		337	300	6,422 (10)
American Recreation Group, Limited Partnership...........	2,531		85		2,446 (10)
Leonard C. Lane.........	7,375		1,125		6,250
Isidore A. Becker.......	4,175		4,175 (7)		
Arie Genger.............	1,200				1,200
Daniel J. Manella.......	1,200				1,200
Charles Jarvie..........		1,000			1,000
Bernard J. Blaney.......	600				600
Howard S. Feldman.......		550			550
Ben Litwak..............	300				300
	79,597	59,566	46,798	428	91,937
Unamortized Discount and Reserves..........	(4,785)	(5,051)	(204)		(9,632)
Total.................	$74,812	$54,515	$46,594	$ 428	$ 82,305

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES - CONSOLIDATED

For the Three Years Ended January 31, 1986
(In Thousands)

Column A	Column B	Column C	Column D	Column E	
	Balance at beginning of year	Additions (Other)	Amounts Collected	Balance at end of year	
Name of debtor (1)				Current	Not current
1984:					
Meshulam Riklis and wholly-owned	$26,508	$29,310	$26,853	$ 34	$ 28,931
entities (2)..........		2,536			2,536 (10)
Carl H. Lindner and majority-owned entity (2)............	2,220	10,000			12,220
Riklis Family Corporation (2).......	5,245	(245)			5,000
AITS, Inc. (2)..........	4,900	111			5,011
Specialty Store Group, Inc. (2).......	475		50	75	350
Harold S. Divine (2)....	286	1,000	286		1,000
Acklinis Associates (c).		7,280	221	337	6,722 (10)
American Recreation Group, Limited Partnership...........		2,531			2,531 (10)
Leonard C. Lane.........	6,255	1,125	5	1,125	6,250
Isidore A. Becker.......	2,025	2,175	25		4,175
Arie Genger.............	1,200				1,200
Daniel J. Manella.......	1,286	200	286		1,200
Bernard J. Blaney.......	600				600
Ben Litwak..............	300				300
	51,300	56,023	27,726	1,571	78,026
Unamortized Discount....	(5,176)	(68)	(459)		(4,785)
Total.................	$46,124	$55,955	$27,267	$1,571	$ 73,241

(1) See Item 13 - "Certain Relationships and Related Transactions".
(a) Sterik Co. - paragraph 26.
(b) Shadrall Associates - paragraph 27.
(c) Acklinis Associates - paragraph 21.
(2) For financial statement purposes, included in amounts due from stockholders and affiliates in the accompanying balance sheets.
(3) Distributed as a dividend to Holding.
(4) Interest receivable and reserve related to debt distributed as a dividend to Holding was written off.
(5) Includes:

Sale of properties	$72,198
Sale of lease interest ..	18,000
Interest income - net ...	3,572
Sundry	241
	$94,011

(6) Receivable assumed by Meshulam Riklis.
(7) Receivable deemed repaid by Isidore A. Becker's assignment of certain obligations of AITS and Riviera to Rapid in approximately the same aggregate principal amount. World Wide subsequently acquired one of the obligations in the amount of $2,175,000.
(8) Note issued to World Wide for purchase of Rapid's Serial Zero Coupon Senior Subordinated Debentures.
(9) Transfer to assets held for sale.
(10) For financial statement purposes, included in other assets - deferred charges, mortgages and sundry (collateralized by various properties).
(11) Carl H. Lindner is no longer a stockholder of Rapid.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

For the Three Years Ended January 31, 1986
(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Descriptions	Balance at beginning of year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at end of year
1986:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable - trade..........	$ 7,278	$ 3,405		$ 1,909 (1) 2,753	$ 6,021
Doubtful accounts receivable - other (3)......	3,187	5,605	$ 1,386 (2)	5,354 (8)	4,824
Total......................	10,465	9,010	1,386	10,016	10,845
Reserves for revaluation of investment in common stock of nonconsolidated subsidiaries and affiliates (4)............	8,314			914	7,400
Reserves for store closings....	10,046	21,634	101,728 27,044 (9)	14,091 (10)	146,361
Total......................	18,360	21,634	128,772	15,005	153,761
Total......................	$28,825	$30,644	$130,158	$25,021	$164,606
1985:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable - trade..........	$ 3,126	$ 1,474	$ 4,671 (2) 220	$ 1,005 (1) 1,208	$ 7,278
Doubtful accounts receivable - other (3)......	794	3,120		727	3,187
Total	3,920	4,594	4,891	2,940	10,465
Reserves for revaluation of investment in common stock of nonconsolidated subsidiaries and affiliates (4)............	8,118		196 (6)		8,314
Reserves for store closings....	9,073	909 (7)	1,156	1,092 (10)	10,046
Total......................	17,191	909	1,352	1,092	18,360
Total......................	$21,111	$ 5,503	$ 6,243	$ 4,032	$ 28,825

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

For the Three Years Ended January 31, 1986
(In Thousands)

Column A	Column B	Column C		Column D	Column E
		Additions			
Descriptions	Balance at beginning of year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at end of year
1984:					
Allowances deducted from assets to which they apply:					
Doubtful accounts receivable: Trade	$ 3,522	$2,305	$ 100	$2,301 500 (5)	$ 3,126
Transportation claims	50			50	-
Allowances for discounts and allowances	438			938 (5) (500)(5)	-
Total	4,010	2,305	100	3,289	3,126
Doubtful accounts receivable - other (3)	826	157		189	794
Total	4,836	2,462	100	3,478	3,920
Reserves for revaluation of investment in common stock of nonconsolidated subsidiaries and affiliates (4)	4,945		3,173 (6)		8,118
Reserves for store closings	11,562	1,521 (7)		4,010 (10)	9,073
Total	16,507	1,521	3,173	4,010	17,191
Total	$21,343	$3,983	$3,273	$7,488	$21,111

Notes:

(1) Operations discontinued or sold.
(2) Amounts applicable to subsidiaries at dates of acquisition of majority interest.
(3) Reserve account has been netted against applicable accounts receivable.
(4) Deducted from investments to which they apply.
(5) Reclassifications.
(6) Includes $393,000 in 1986, $452,000 in 1985 and $3,769,000 in 1984 for foreign currency translation adjustment.
(7) Includes imputed interest of $201,000 in 1986, $909,000 in 1985 and $1,521,000 in 1984.
(8) Interest receivable and reserve related to debt distributed as a dividend to Holding.
(9) Transfer from other balance sheet accounts.
(10) Net charge incurred in connection with store closings and reversal of $3,742,000, $744,000 and $162,000 for the years ended January 31, 1986, 1985 and 1984, respectively.

INDEX TO EXHIBITS

Exhibits		Page No.
3(a)	Rapid's Certificate of Incorporation, as amended by a Certificate of Amendment, dated January 10, 1985, and a Certificate of Designation, dated January 15, 1985, designating the rights and preferences of Rapid's Preferred Stock, together with a Certificate of Correction to said Certificate of Designation, dated January 25, 1985, filed as Exhibit 3(a) to Rapid's Form 10-K for the fiscal year ended January 31, 1985 (the "1985 10-K"), which is incorporated herein by reference.	*
(b)	Rapid's By-Laws, filed as Exhibit 3(b) to the Joint Registration Statement of Rapid and Kenton Corporation on Form S-14, File No. 2-70073 (the "Joint Registration Statement"), which is incorporated herein by reference.	*
4(a)	Indenture, dated as of January 31, 1981, between Rapid and Bradford Trust Company, as Trustee, for Rapid's 10% Sinking Fund Subordinated Debentures, due 2006, filed as Exhibit 4 to the Joint Registration Statement, which is incorporated herein by reference.	*
(b)	Indenture, dated as of March 1, 1984, between Rapid and Sterling National Bank & Trust Company, as Trustee, for Rapid's 14-1/2% Senior Subordinated Notes, due 1994, filed as Exhibit 4(b) to Rapid's Form 10-K for the fiscal year ended January 31, 1984 (the "1984 10-K"), which is incorporated herein by reference.	*
(c)	Indenture, dated as of March 1, 1984, between Rapid and Sterling National Bank & Trust Company, as Trustee, for Rapid's Serial Zero Coupon Senior Subordinated Debentures, due 1985 through 2007, filed as Exhibit 4(c) to the 1984 10-K, which is incorporated herein by reference.	*
(d)**		
10(a)	Employment Agreement between McCrory and Harold S. Divine, dated as of December 15, 1983, filed as Exhibit 10.33 to Rapid's Registration Statement on Form S-2, Registration No. 2-88385 (the "Form S-2"), which is incorporated herein by reference.	*
(b)	Severance Agreement, dated December 1, 1981, between McCrory and Arie Genger, filed as Exhibit 20(a) to Rapid's Form 10-K for the fiscal year ended January 31, 1982 (the "1982 10-K"), which is incorporated herein by reference.	*

Exhibits		Page No.
(i)	Loan Agreement, dated December 1, 1981, between Arie Genger and McCrory filed as Exhibit 10(n) to the 1982 10-K, which is incorporated herein by reference.	*
(j)	Loan Agreement, dated February 3, 1982, between Leonard C. Lane and Rapid filed as Exhibit 10(o) to the 1982 10-K, which is incorporated herein by reference.	*
(k)(1)	Loan Agreement, dated August 10, 1982, between Meshulam Riklis and Rapid, filed as Exhibit (ii) to Rapid's Form 10-Q for the fiscal quarter ended July 31, 1982 (the "July 1982 10-Q"), which is incorporated herein by reference.	*
(2)	Loan Agreement, dated August 10, 1982, between Meshulam Riklis and Rapid, filed as Exhibit (iii) to the July 1982 10-Q, which is incorporated herein by reference.	*
(3)	Agreement, dated as of June 1, 1984, among Rapid, World Wide, and Meshulam Riklis, with respect to, among other things, the foregoing loans, filed as an exhibit to Rapid's Form 10-Q for the fiscal quarter ended July 31, 1984, which is incorporated herein by reference.	*
(l)	Loan Agreement, dated as of February 1, 1985, between Rapid and J. Philip Lux, filed as Exhibit 10(s) to the 1985 10-K, which is incorporated herein by reference.	*
(m)	Agreement, dated August 8, 1983, between Rapid and Leonard C. Lane, relating to the sale of the capital stock and certain indebtedness of Theatre Venture, Inc, filed as Exhibit 10(u) to the 1985 10-K, which is incorporated herein by reference.	*
(n)(1)	Agreement, dated January 31, 1983, between Rapid and Meshulam Riklis, relating to the sale of certain properties in Connecticut, with Rapid's promissory note to Mr. Riklis in the amount of $2,111,500 attached, filed as Exhibit 10(v)(1) to the 1985 10-K, which is incorporated herein by reference.	*
(2)	Limited Guaranty, dated January 31, 1983, of Rapid guaranteeing certain obligations of Meshulam Riklis under his promissory note to a bank, filed as Exhibit 10(v)(2) to the 1985 10-K, which is incorporated herein by reference.	*

Exhibits		Page No.
(o)	Guaranty, dated March 30, 1984, by Meshulam Riklis of certain obligations of World Wide under its promissory note to a bank, with a guaranty by Rapid of Mr. Riklis' obligations under such guaranty, filed as Exhibit 10(w) to the 1985 10-K, which is incorporated herein by reference.	*
(p)(1)	Agreement, dated as of January 1, 1984, among ARG, Rapid, and World Wide, for the sale of ARG's assets, filed as Exhibit 10(x)(1) to the 1985 10-K, which is incorporated herein by reference.	*
(2)	Pledge and Security Agreement, dated as of January 11, 1984, between Rapid and Manufacturers Hanover Trust Company, with respect to security for a $13,000,000 loan to World Wide, filed as Exhibit 10(x)(2) to the 1985 10-K, which is incorporated herein by reference.	*
(q)	Aircraft lease agreement, dated March 21, 1984, between View Top Corporation, a wholly-owned subsidiary of Rapid, and Pacific Interstate Airlines, Inc., an affiliate of World Wide, filed as Exhibit 10(y) to the 1985 10-K, which is incorporated herein by reference.	*
(r)(1)	Agreement, dated June 1, 1984, between McCrory and World Wide Computer Partnership L.P., relating to the provision of computer services to McCrory, filed as Exhibit 10(z)(1) to the 1985 10-K, which is incorporated herein by reference.	*
(2)	Agreement, dated June 1, 1984, between Schenley and World Wide Computer Partnership L.P., relating to the provision of computer services to Schenley, filed as Exhibit 10(z)(2) to the 1985 10-K, which is incorporated herein by reference.	*
(s)	Contract of Sale, dated as of January 31, 1983, between Friedman-Marks, Inc., a wholly-owned subsidiary of Rapid, and Acklinis Associates, with amendment thereto, dated July 5, 1983, respecting the sale of a lease and leasehold estate in Richmond, Virginia, filed as Exhibit 10(aa) to the 1985 10-K, which is incorporated herein by reference.	*
(t)	Contract of Sale, dated as of January 31, 1983, between S. Klein Department Stores, Inc. and Acklinis Associates, with purchase money note attached, respecting the sale of a lease and leasehold estate in Yonkers, New York, filed as Exhibit 10(bb) to the 1985 10-K, which is incorporated herein by reference.	*

Exhibits		Page No.
(u)	Promissory Note of World Wide to Rapid in the principal amount of $15,000,000, filed as Exhibit 10(cc) to the 1985 10-K, which is incorporated herein by reference.	*
(v)	Agreement, dated February 29, 1984, among Rapid, World Wide, and AFC, with promissory note of World Wide attached, relating to the purchase by Rapid of its 7% Debentures, filed as Exhibit 10(dd) to the 1985 10-K, which is incorporated herein by reference.	*
(w)	Zero Coupon Notes of Holding, in the aggregate principal amount of $5,564,785, filed as Exhibit 10(ee) to the 1985 10-K, which is incorporated herein by reference.	*
(x)	Schenley's Employees' Retirement and Benefit Plan, Restated effective January 31, 1976 and as amended through May 24, 1979, filed as Exhibit 10(j) to the Joint Registration Statement, which is incorporated herein by reference.	*
(y)	McCrory's Plan of Retirement for Directors adopted January 10, 1978, filed as Exhibit 10(k) to the Joint Registration Statement, which is incorporated herein by reference.	*
(z)(1)	Sale of Stock Agreement, dated February 3, 1982, among Rapid, Meshulam Riklis, and Carl H. Lindner, filed as Exhibit 10(r) to the 1982 10-K, which is incorporated herein by reference.	*
(2)	ILC Debt Agreement, dated February 3, 1982, among Rapid, ILC, and Leonard C. Lane filed as Exhibit 10(q) to the 1982 10-K, which is incorporated herein by reference.	*
(aa)(1)	Credit Agreement, dated as of January 21, 1986, among McGregor, Faberge, Hortex Incorporated, the banks listed therein, and Irving Commercial Corporation, as agent, filed as Exhibit 10.21(1) to McGregor's Form 10-K for the fiscal year ended January 31, 1986 (the "McGregor 1986 10-K"), which is incorporated herein by reference.	*
(2)	Security Agreement, dated as of January 21, 1986, between McGregor and Irving Commercial Corporation, as agent for the Secured Parties, filed as Exhibit 10.21(2) to the McGregor 1986 10-K, which is incorporated herein by reference.	*

Exhibits		Page No.
(11)	Factoring Agreement between Faberge and Irving Commercial Corporation, dated January 21, 1986, and related Guaranty of McGregor and Hortex, filed as Exhibit 10.21(11) to the McGregor 1986 10-K, which is incorporated herein by reference.	*
(12)	Factoring Agreement between Hortex and Irving Commercial Corporation, dated January 21, 1986, and related Guaranty of McGregor and Faberge, filed as Exhibit 10.21(12) to the McGregor 1986 10-K, which is incorporated herein by reference.	*
(bb)	Merger Agreement, dated as of February 19, 1985, between McGregor and Rapid Subsidiary Corporation, set forth as Exhibit A to the Proxy Statement of McGregor, filed with the Commission on February 20, 1985, which is incorporated herein by reference.	*
(cc)(1)	Loan Agreement (the "HRT Loan Agreement"), dated as of March 13, 1984, among HRT Industries, Inc. ("HRT"), Karl's Shoe Stores, Ltd. ("Karl's"), and Manufacturers Hanover Trust Company ("MHTC"), filed as Exhibit 8 to the Schedule 13D of McCrory, M&S Joint Venture and Schottenstein Stores Corporation, filed with the Commission on March 23, 1984 (the "Schedule 13D"), which is incorporated herein by reference.	*
(2)	Guaranty and Note Purchase Agreement, dated March 13, 1984, between McCrory and MHTC, filed as Exhibit 9 to the Schedule 13D, which is incorporated herein by reference.	*
(3)	Fourth Amendment dated February 26, 1986 to the Guaranty and Note Purchase Agreement, dated March 13, 1984, between McCrory and MHTC, filed as Exhibit 10(f)(3) to McCrory's Form 10-K for the fiscal year ended January 31, 1986 (the "McCrory 1986 10-K"), which is incorporated herein by reference.	*
(4)	Letter Agreement, dated February 26, 1986, among HRT, Karl's and MHTC terminating the HRT Loan Agreement, filed as Exhibit 10(f)(4) to the McCrory 1986 10-K, which is incorporated herein by reference.	*
(5)	Demand Note, dated February 26, 1986, of HRT and Karl's to MHTC, filed as Exhibit 10(f)(5) to the McCrory 1986 10-K, which is incorporated herein by reference.	*

Exhibits		Page No.
(2)	First Amendment to Stock Purchase Agreement, dated as of December 30, 1985, between HMI Holding, Inc. and McCrory Acquisition Corp., filed as Exhibit 2.2 to the Form 8-K, which is incorporated herein by reference.	*
(3)	Second Amendment to Stock Purchase Agreement, dated as of January 7, 1986, between HMI Holding, Inc. and McCrory Acquisition Corp., filed as Exhibit 2.3 to the Form 8-K, which is incorporated herein by reference.	*
(mm)	Revolving Credit Agreement, dated as of February 26, 1986, among McCrory, the banks which are parties thereto and MHTC, as agent, filed as Exhibit 10(o) to the McCrory 1986 10-K, which is incorporated herein by reference.	*
(nn)	Demand promissory note, dated February 18, 1986, of T. G. & Y. Stores to MHTC, filed as Exhibit 10(p) to the McCrory 1986 10-K, which is incorporated herein by reference.	*
(oo)	Assignment Agreement, dated February 18, 1986, between T. G. & Y. Stores and MHTC collateralizing the demand promissory note of the same date, filed as Exhibit 10(q) to the McCrory 1986 10-K, which is incorporated herein by reference.	*
(pp)(1)	Credit Agreement, dated as of December 27, 1985, as amended, between Schenley and the banks which are parties thereto.	E-13 ***
(2)	Pledge and Security Agreement, dated as of December 27, 1985, between Schenley and the banks which are parties thereto.	E-14 ***
(qq)(1)	Contract of Sale, dated July 18, 1983, between Rapid, Union Square Development Associates and Gilring Holding Corp., for the sale of property.	E-15 ***
(2)	First Amendment of Contract, dated August 30, 1985, between Rapid, Union Square Associates and Gilring Holding Corp.	E-16 ***
(rr)(1)	Contract of Sale and Purchase, dated as of August 9, 1985, between McCrory, SDH and Sterik Company, relating to the sale of properties, filed as Exhibit 10(s)(1) to the McCrory 1986 10-K, which is incorporated herein by reference.	*

Exhibits		Page No.
(2)	Contract of Sale and Purchase, dated as of August 9, 1985, between HRT, SDH and Sterik Company, relating to the sale of leaseholds, filed as Exhibit 10(s)(2) to the McCrory 1986 10-K, which is incorporated herein by reference.	*
(ss)	Agreement, dated August 14, 1985, between McCarlen of Cherry Hill and Ackrik Associates, filed as Exhibit 10(t) to the McCrory 1986 10-K, which is incorporated herein by reference.	*
(tt)(1)	Letter Agreement, dated as of March 1, 1986, between McCrory and Shadrall Associates with respect to the sale of property, filed as Exhibit 10(u)(1) to the McCrory 1986 10-K, which is incorporated herein by reference.	*
(2)	Promissory Note, dated March 1, 1986, of Shadrall Associates to McCrory, filed as Exhibit 10(u)(2) to the McCrory 1986 10-K, which is incorporated herein by reference.	*
11	Omitted (Inapplicable).	
12	Rapid and Subsidiaries Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends Combined.	E-17
13	Omitted (Inapplicable).	
18	Omitted (Inapplicable).	
19	Omitted (Inapplicable).	
22	Subsidiaries of Rapid.	E-18
23	Omitted (Inapplicable).	
24	Omitted (Inapplicable).	
25	Original powers of attorney authorizing Peter Thorner and Stuart H. Aarons, and each of them, to sign this report and any amendments hereto on behalf of the directors and officers of the Registrant.	E-19 ***
28	Omitted (Inapplicable).	
29	Omitted (Inapplicable).	

* Incorporated by reference.
** For a description of Rapid's other long-term indebtedness, see Note 8 to Financial Statements. Rapid agrees to furnish to the Commission copies of such instruments upon its request.
*** Exhibit omitted.

RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS COMBINED

	Year Ended January 31,				
	1986	1985*	1984	1983	1982
	(In Millions, Except Ratios)				
nings as defined:					
ncome (loss) from continuing operations before provision (benefit) for income taxes and extraordinary items (1)	$ 66.1	$ (5.8)	$ 19.3	$(12.1)	$(50.7)
dd: Fixed charges as defined:					
Interest and debt expense	163.9	180.5	117.0	138.9	143.6
One third of annual rents (2)	21.8	20.2	18.1	17.0	16.3
Fixed charges (excluding capitalized interest)	185.7	200.7	135.1	155.9	159.9
Capitalized interest	6.7		.6	2.4	1.0
Preferred dividend requirements (3) ...	39.5	1.5	1.5	1.7	3.7
Total fixed charges and preferred dividend requirements as defined ..	231.9	202.2	137.2	160.0	164.6
Total earnings as defined	$251.8	$194.9	$154.4	$143.8	$109.2
io of earnings from continuing)erations to fixed charges and referred dividends combined	1.09	**	1.13	**	**

Restated for operations discontinued.

Earnings from continuing operations were not sufficient to cover fixed charges and preferred dividends combined by $10.6 million, 1985; $16.2 million, 1983; and $55.4 million, 1982.

Income (loss) from continuing operations before provision (benefit) for income taxes and extraordinary items per statements of consolidated operations	$ 65.5	$ (9.4)	$ 18.1
Minority interest	.6	3.6	1.2
	$ 66.1	$ (5.8)	$ 19.3

Representative of the interest factor relating to rental expense.

Consolidated preferred dividends on a pretax basis.

TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

The following table sets forth certain information, as of April 18, 1986, with respect to the subsidiaries of Rapid, other than certain subsidiaries which, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Parent (1)		
Subsidiaries of Rapid:		
McCrory Corporation	100%(2)	Delaware
Schenley Industries, Inc.	100%	Delaware
McGregor Corporation	100%	New York
Rapid Typographers Company, Inc.	100%	Delaware
Rapid Distribution Service, Inc.	100%	Delaware
View Top Corporation	100%	Delaware
Schenley Medical Imaging, Inc.	100%	Delaware
Subsidiaries of McCrory:		
J. J. Newberry Co.	100%	Delaware
McCrory Acquisition Corp.	100%	Delaware
HRT Industries, Inc.	100%	Delaware
S. Klein Department Stores, Inc.	100%	New York
Subsidiary of Newberry:		
J. J. Newberry Canadian Ltd.	100%	Canada
Subsidiary of McCrory Acquisition Corp.:		
T. G. & Y. Holdings, Inc.	100%	Delaware
Subsidiary of T. G. & Y. Holdings, Inc.:		
T. G. & Y. Stores Co.	100%	Delaware
Subsidiaries of Schenley:		
AGE Bodegas Unidas, S.A.	49.3%	Spain
Distributors of New England, Inc.	100%	Massachusetts
Dreyfus-Ashby & Co. Limited	100%	United Kingdom
Dubonnet Wine Corporation	100%	New York
L.E. Jung & Wulff Co., Inc.	100%	New York
Knickerbocker Market Research Corp.	100%	New York
Schenley Affiliated Brands Corp.	100%	New York
Schenley Distillers, Inc.	100%	Delaware
Schenley Enterprises, Inc.	100%	Delaware
Schenley Far East, Ltd.	100%	Japan
Schenley International Co. Inc.	100%	Delaware
Virgin Islands Rum Industries, Ltd.	100%	Virgin Islands

TABLE OF RAPID-AMERICAN CORPORATION AND SUBSIDIARIES

	Percentage of voting securities owned by its immediate parent	State or other jurisdiction in which incorporated
Subsidiaries of Knickerbocker Market Research Corp.:		
Merit House, Inc.	100%	Delaware
World Network, Inc.	100%	Delaware
Subsidiary of Schenley Distillers, Inc.:		
Tennessee Dickel Distilling Co.	100%	Tennessee
Subsidiary of Schenley Medical Imaging, Inc.:		
Digital Imaging Company of America, Inc.	80%	Delaware
Subsidiaries of McGregor Corporation:		
Faberge, Incorporated	100%	Minnesota
BTK Industries, Inc.	100%	Delaware

(1) For information concerning Rapid-American Holding Corporation, see "Introductory Note" and Item 12 - "Security Ownership of Certain Beneficial Owners and Management."

(2) Rapid has approximately 100% of the voting power except for the election of directors where it has approximately 81% of such voting power.